

**INVESTIGATION OF WHITEWATER
DEVELOPMENT CORPORATION
AND RELATED MATTERS**

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**SPECIAL COMMITTEE TO INVESTIGATE
WHITewater DEVELOPMENT CORPORATION
AND RELATED MATTERS**

ADMINISTERED BY THE

**COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FOURTH CONGRESS**

SECOND SESSION

VOLUME XVII

ON

**THE INQUIRY INTO WHETHER IMPROPER CONDUCT
OCCURRED WITH RESPECT TO THE OPERATION,
INVESTMENTS, AND ACTIVITIES OF WHITEWATER
DEVELOPMENT CORPORATION, MADISON GUARANTY
SAVINGS & LOAN, CAPITAL MANAGEMENT
SERVICES, AND RELATED MATTERS**

FEBRUARY 27 AND 29; APRIL 23, 24, 25, 26, 27, AND 30;
MAY 1, 3, 4, 5, AND 6, 1996

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



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**INVESTIGATION OF WHITEWATER
DEVELOPMENT CORPORATION
AND RELATED MATTERS**

DEPOSITIONS

BEFORE THE

**SPECIAL COMMITTEE TO INVESTIGATE
WHITEWATER DEVELOPMENT CORPORATION
AND RELATED MATTERS**

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**BANKING, HOUSING, AND URBAN AFFAIRS
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CONTENTS

VOLUME XIV

MONDAY, NOVEMBER 27, 1995

	Page
S. Res. 120	1
Arnold Hawkins	27

MONDAY, DECEMBER 4, 1995

Lex A. Dobbins	53
Mitchell F. Stanley	113
William A. Teer	151

TUESDAY, DECEMBER 5, 1995

Tom Butler	183
Janice Dean Choate	231

TUESDAY, DECEMBER 12, 1995

William Burt Brady	279
Bobby J. Nash	319

THURSDAY, DECEMBER 14, 1995

William Cain Lyon	357
-------------------------	-----

MONDAY, DECEMBER 18, 1995

Ellsworth Russell Webb, M.D.	409
-----------------------------------	-----

TUESDAY, DECEMBER 19, 1995

Charles F. Handley	435
--------------------------	-----

THURSDAY, DECEMBER 21, 1995

Lisa Caputo	531
-------------------	-----

FRIDAY, JANUARY 5, 1996

Sam I. Bratton, Jr. [Volume I]	577
Ronald M. Clark	707

WEDNESDAY, JANUARY 10, 1996

Bruce R. Lindsey	827
------------------------	-----

MONDAY, JANUARY 15, 1996

Davis Fitzhugh	899
William H. Kennedy, III	959

TUESDAY, JANUARY 16, 1996

Charles J. Peacock	1075
--------------------------	------

WEDNESDAY, JANUARY 17, 1996

Carolyn C. Huber	1113
------------------------	------

THURSDAY, JANUARY 18, 1996

Treeca J. Dyer	1197
----------------------	------

FRIDAY, JANUARY 19, 1996

Charles R. Singleton	1229
----------------------------	------

MONDAY, JANUARY 22, 1996

Lance Randell Miller	1259
----------------------------	------

WEDNESDAY, JANUARY 24, 1996

Michael J. Drake	1337
------------------------	------

THURSDAY, JANUARY 25, 1996

Capricia Penavic Marshall	1465
---------------------------------	------

VOLUME XV**FRIDAY, JANUARY 26, 1996**

Onie Elizabeth (Betsey) Wright [Volume I]	1535
---	------

MONDAY, JANUARY 29, 1996

Amy Stewart	1703
-------------------	------

FRIDAY, FEBRUARY 2, 1996

Gary J. Walters	1739
-----------------------	------

MONDAY, FEBRUARY 5, 1996

Patricia M. Black	1841
S. Wooten Epes	1977
Dennis W. Freemyer	2093
Steven A. Switzer	2207

TUESDAY, FEBRUARY 6, 1996

Nancy Hernreich	2237
Alston Jennings	2283
Jane C. Sherburne	2355

WEDNESDAY, FEBRUARY 7, 1996

David Evan Kendall	2439
Robert L. Snider	2495

THURSDAY, FEBRUARY 8, 1996

Robert Shults	2579
Margaret A. Williams	2663

FRIDAY, FEBRUARY 9, 1996

Johnny B. Mitchum	2733
Patricia Solis	2815

MONDAY, FEBRUARY 12, 1996

Helen Dickey	2873
Barbara L. Feinman	2943
Mark D. Gearan	2993
Marlin Jackson	3089
Seth Ward	3153

VOLUME XVI**TUESDAY, FEBRUARY 13, 1996**

Helen Herr	3219
------------------	------

WEDNESDAY, FEBRUARY 14, 1996

Gregory M. Hopkins	3297
Paul Mallard	3357

THURSDAY, FEBRUARY 15, 1996

Frank B. Burge	3407
Mort G. Hardwicke	3491
Nancy McFadden	3537

FRIDAY, FEBRUARY 16, 1996

Michael J. Gaines	3579
Morris Patterson	3649

MONDAY, FEBRUARY 19, 1996

Robert B. Barnett	3701
James B. Blair	3747
Nicole K. Seligman	3859
Melanne Verveer	3901

TUESDAY, FEBRUARY 20, 1996

John W. Myers	3947
Marcella J. Taylor	3979

WEDNESDAY, FEBRUARY 21, 1996

Bobby J. Nash	3999
Aprill Nicole Springfield	4095
Michael Alan Waldman	4141

THURSDAY, FEBRUARY 22, 1996

Danny Ray Lasater	4239
James N. Patterson	4381
John M. Quinn	4435

FRIDAY, FEBRUARY 23, 1996

Karen Queen Hare	4483
Patricia J. Hays	4505
Patsy L. Thomasson	4577

MONDAY, FEBRUARY 26, 1996

Thomas L. Goodwin	4637
-------------------------	------

VOLUME XVII**TUESDAY, FEBRUARY 27, 1996**

Onie Elizabeth (Betsey) Wright [Volume II]	4709
Paul B. Young, Jr.	4815

THURSDAY, FEBRUARY 29, 1996

James L. Rutherford	4899
---------------------------	------

TUESDAY, APRIL 23, 1996

Sam I. Bratton, Jr. [Volume II]	4953
Frank B. Burge	5001
David A. Collins	5025
Robert Ritter	5067
W. Maurice Smith, Jr.	5127

WEDNESDAY, APRIL 24, 1996

George H. Wright, Jr.	5201
----------------------------	------

THURSDAY, APRIL 25, 1996

George E. Locke	5237
Frank W. Oldham, Jr.	5295

FRIDAY, APRIL 26, 1996

George Emerson Campbell	5343
David A. Knight	5377
Theresa L. Pockrus	5409

SATURDAY, APRIL 27, 1996

Linda D. Chandler	5435
-------------------------	------

MONDAY, APRIL 29, 1996

Charles D. Campbell	5489
Beverly Bassett Schaffer	5527

TUESDAY, APRIL 30, 1996

William B. Fisher	5573
Charles Stout	5625

WEDNESDAY, MAY 1, 1996

Margaret Rozzell Eldridge	5673
---------------------------------	------

THURSDAY, MAY 2, 1996

Gary W. Bunch	5719
Ron A. Proctor	5779
J. Wesley Strange	5837

FRIDAY, MAY 3, 1996

Vernon H. Dewey	5895
Edward M. Penick, Jr.	5935

SATURDAY, MAY 4, 1996

W. Neil Eggleston	6005
-------------------------	------

SUNDAY, MAY 5, 1996

Charles E. James	6039
------------------------	------

MONDAY, MAY 6, 1996

Gaines B. Norton, Jr.	6191
----------------------------	------

VOLUME XVIII**TUESDAY, MAY 7, 1996**

Harry Don Denton	6257
Wayne Hartsfield	6339

WEDNESDAY, MAY 8, 1996

Susan Sisk Grobmyer	6401
---------------------------	------

FRIDAY, MAY 10, 1996

Paul C. Berry	6439
Bruce A. Ericson [Volume I]	6485

TUESDAY, MAY 14, 1996

Loretta Lynch	6639
Charles E. Patterson	6721

WEDNESDAY, MAY 15, 1996

Bruce A. Ericson [Volume II]	6803
John M. Latham	6861
Jay B. Stephens [Volume I]	6893

THURSDAY, MAY 16, 1996

Jay B. Stephens [Volume II]	6963
-----------------------------------	------

FRIDAY, MAY 24, 1996

James J. Igo	7041
--------------------	------

WEDNESDAY, MAY 29, 1996

Mark Gabrellian	7093
Ellen B. Kulka	7139

THURSDAY, MAY 30, 1996

Yoly Redden 7175

FRIDAY, MAY 31, 1996

Leslie A. Patten 7317

TUESDAY, JUNE 4, 1996

Webster L. Hubbell 7401

WEDNESDAY, JUNE 5, 1996

James M. Lyons 7469

THURSDAY, JUNE 6, 1996

Sandra J. Hatch 7579

FRIDAY, JUNE 7, 1996

Mildred C. Alston 7605

SATURDAY, JUNE 8, 1996

Bruce R. Lindsey 7639

WEDNESDAY, JUNE 12, 1996

Linda Garner 7917

**DEPOSITION OF
ONIE ELIZABETH (BETSEY) WRIGHT
IN RE: S. RES. 120**

VOLUME II

TUESDAY, FEBRUARY 27, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Deposition of ONIE ELIZABETH (BETSEY) WRIGHT,
called for further examination pursuant to agreement by counsel,
at 1:10 p.m. in Room 640-A of the Hart Senate Office Building, be-
fore DAVID L. HOFFMAN, Court Reporter, when were present:

ROBERT J. GIUFFRA, JR., Esq.

Majority Chief Counsel

MARK J. BRENNER, Esq.

Majority Assistant Special Counsel

LANCE COLE, Esq.

Minority Deputy Special Counsel

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On behalf of the Deponent.

CONTENTS

WITNESS	EXAMINATION
Onie Elizabeth (Betsey) Wright [Resumed] by Mr. Giuffra	3
Errata	4811

EXHIBITS

ONIE ELIZABETH (BETSEY) WRIGHT DEPOSITION NUMBER	IDENTIFIED
Wright Exhibit 1	4, 4813

PROCEEDINGS

(1:10 p.m.)

Whereupon,

BETSEY WRIGHT

was recalled as a witness herein, and having been previously duly sworn, was examined and testified further, as follows:

EXAMINATION (Continued)

BY MR. GIUFFRA:

Q Good afternoon, Ms. Wright.

As you know, my name is Robert Giuffra, Chief Counsel to the Senate Banking Committee.

To my right is Lance Cole, Deputy Minority Special Counsel.

Also with us is Mark Brenner, Assistant Special Counsel.

This is the second day of your deposition, which is conducted pursuant to Senate Resolution 120, and you understand that you're still under oath?

A I do.

Q You're represented by Mr. Cohen and Mr. Rizzi, who are free to reenter their appearance for

4

the record if they feel it's necessary to do so.

MR. COHEN: I don't think so.

MR. GIUFFRA: Mr. Cohen, you stated you had a statement you wanted to make for the record?

MR. COHEN: I have three matters I want to take up with Committee Staff. They represent three instances in which I believe the Committee's Rules have not been adhered to.

My client's privacy and the confidentiality of these proceedings, which was assured by the Resolution, has been violated.

The first is that Ms. Wright received, on February 15th, from an Associated Press reporter, whose name is Pete Yost, a letter, and there were subsequent telephone conversations as a follow up to that letter, the letter, a copy of which we will put into the record by subsequent transmittal to you, reveals that Yost had access to material that I believe was provided to this Committee pursuant to subpoena and under the same assurances of confidentiality found in the Resolution.

The letter specifically refers to and

1 attempts to interpret handwriting on a document from
2 Ms. Wright and Governor Clinton.

3 He then told us, in a subsequent telephone
4 conversations, that he hadn't been given the
5 documents, but was only permitted to review them, and
6 he copied down the substance of them.

7 That is against the backdrop of a Newsweek
8 article in which Mr. Bossie is reported by the
9 Reporter to have said that if he wrote the article
10 about Mr. Bossie, Mr. Bossie wouldn't give him any
11 more information.

12 THE WITNESS: Tips and leads, I think.

13 MR. COHEN: Right.

14 I don't believe that there's any excuse
15 for the material we give to this Committee in
16 confidence being put into the hands of reporters.
17 And whatever else is clear, this material was given
18 to you and was given to you in confidence and didn't
19 go to the press from us.

20 That's number one.

21 MR. GIUFFRA: Can I ask a question?

22 Did the White House have copies of those

1 documents?

2 MR. COHEN: I don't know.

3 MR. GIUFFRA: Did Mr. Kendall have copies
4 of those documents?

5 MR. COHEN: Mr. Kendall I believe
6 definitely had copies of these.

7 MR. GIUFFRA: So we don't know whether Mr.
8 Kendall might have provided them to Mr. Yost?

9 MR. COHEN: I'd be delighted to ask Mr.
10 Kendall that question for you, and put the answer on
11 the record.

12 MR. GIUFFRA: There have been instances in
13 which the White House and Mr. Kendall have provided
14 documents that have been provided to the Committee,
15 to the press.

16 MR. COLE: I think they publicly released
17 documents which were their own documents which they
18 have a perfect right to do.

19 MR. COHEN: I think it's fairly clear that
20 the spin that Yost had on this particular document
21 was precisely the spin that one would expect to come
22 from Mr. Bossie.

1 The second issue, under Section 6 of the
2 Senate Resolution governing these proceedings, my
3 client was assured the confidentiality of her
4 deposition testimony. And unless the Chairman and
5 the Ranking Member or the Chairman with the
6 concurrence of the Ranking Member under Section 6A,
7 authorized the release of testimony, that testimony
8 remains confidential.

9 That's not what happened here, gentlemen.

10 What happened is, after Ms. Wright
11 testified, a day or two later, her testimony was
12 characterized or quoted, I can't remember which, by
13 Senator Faircloth in questioning Webb Hubbell, and in
14 that questioning the Senator said Ms. Wright
15 testified as follows, about a particular
16 conversation. What's your view or recollection of
17 the conversation.

18 I think that's a blatant breach of the
19 confidentiality assurances that are found in the
20 Resolution of the Section itself. And I note that
21 that was an issue that Mr. Bossie was particularly
22 interested in in the deposition, that is, the issue

1 the Senator followed up on with Webb Hubbell.

2 MR. GIUFFRA: Just on that one, there have
3 been instances in which members have quoted from
4 depositions that have been taken prior to the time at
5 which the deponent publicly testified.

6 MR. COHEN: While that may be true, that's
7 certainly not the procedure set out in Section 6 of
8 the Resolution, which of course provides that we get
9 an opportunity, the witness and her counsel get an
10 opportunity to review the material before that
11 deposition is released for reasons, among others, to
12 assure the accuracy of the testimony.

13 MR. GIUFFRA: Was there any problem with
14 the accuracy of that particular transcript?

15 MR. COHEN: I haven't seen the transcript.
16 When I've seen the transcript, then I'll have an
17 opportunity to review it.

18 MR. GIUFFRA: The part that Senator
19 Faircloth used during the hearing?

20 MR. COHEN: I can't say that there's much
21 of Senator Faircloth's questioning that I have found
22 particularly accurate, so I wouldn't want to

1 characterize this particular question.

2 MR. GIUFFRA: Just the quote that he used
3 from the deposition, that's what I'm focusing on now.

4 MR. COHEN: I'll be delighted to go back
5 and check his ability to accurately quote from a
6 transcript.

7 And finally, I object to what I thought
8 was a relatively blatant mischaracterization by Mr.
9 Chertoff, with whom I'll take this up as well, of Ms.
10 Wright's trip to Little Rock.

11 Mr. Chertoff, in his questioning of Mr.
12 Hubbell, said that Ms. Wright went to Little Rock to
13 look for Whitewater documents.

14 THE WITNESS: Was that Hubbell? I think
15 it was Gearan and Ickes.

16 MR. COHEN: Ms. Wright is undoubtedly
17 right, that it was Gearan and/or Ickes. I think it
18 was Gearan actually and of course that's not her
19 testimony. She went there looking for campaign
20 finance records, came across a box of records that
21 related to Whitewater, and handled them accordingly.

22 The suggestion that she was going down to

10

1 look for Whitewater records was -- not a suggestion,
2 a statement that she was going down to look for
3 Whitewater documents done in the characteristic
4 leading form that it was, was just wrong.

5 Mr. Chertoff should have been more
6 accurate in his use of that information.

7 That's all I have to put on the record. I
8 suspect you have some questions you want to ask?

9 MR. GIUFFRA: That's correct.

10 BY MR. GIUFFRA:

11 Q Ms. Wright, just turning back to January
12 1994, when you went to Little Rock to pick up records
13 to respond to press inquiries, it was your prior
14 testimony that no one asked you to go to Little Rock
15 and look at these records, correct?

16 A Correct.

17 Q You testified at your last deposition that
18 you discussed going to Little Rock to pick up these
19 records with Bruce Lindsey.

20 A I didn't discuss it with anybody. I did
21 tell some people I was going to go do it.

22 Q Among the people you told you were going

1 to go to pick up, look for records, was Bruce
2 Lindsey?

3 A I'm pretty sure I did.

4 Q Did you have any kind of a discussion with
5 Mr. Lindsey?

6 A No.

7 Q Did he indicate to you what sorts of
8 documents you should be looking for?

9 A No. I told people I was going to get
10 the campaign finance records.

11 Q But my question is did Mr. Lindsey
12 indicate to you the types of documents you might want
13 to look for when you went to Little Rock to look for
14 the records?

15 A No.

16 Q Did he not give you any suggestions as to
17 the types of documents that might be needed for what
18 he was doing?

19 A No, I had no idea what he was doing.

20 Q Who else, besides Mr. Lindsey, did you
21 discuss going to Little Rock to look at documents?

22 A I didn't discuss it with anybody. I did

12

1 tell some people I was going to go get them.

2 Q Who did you tell?

3 MR. COHEN: Mr. Giuffra, I am positive
4 that this subject and these questions were gone over
5 before and though I obviously haven't had the
6 transcript, or access to it, I'm going to, as I told
7 you when we rescheduled at this date, I'm going to
8 insist that we move on to new areas, and ask
9 questions that we haven't covered before.

10 BY MR. GIUFFRA:

11 Q At your last deposition, you mentioned
12 that you told Bruce, John Podesta, and David Kendall.

13 MR. COHEN: That confirms my recollection.

14 MR. GIUFFRA: Just let me finish.

15 BY MR. GIUFFRA:

16 Q And you testified that you could not
17 remember discussing this with anybody else.

18 Do you recall that?

19 MR. COHEN: If that's what the record
20 says.

21 THE WITNESS: I don't remember discussing
22 it with anybody.

1 BY MR. GIUFFRA:

2 Q Do you remember telling anyone else?

3 A I don't, but I wasn't trying to keep it a
4 secret, either.

5 Q Did you tell Harold Ickes you were going
6 to Little Rock?

7 A No. Was Harold there then? When did
8 Harold come?

9 Q Sometime in January. He was there in
10 January '94.

11 Were you aware of any Whitewater defense
12 meetings that were held in the White House in January
13 1994?

14 MR. COHEN: You also asked that, and she's
15 been over it and said who she attended the few times
16 she attended meetings.

17 MR. GIUFFRA: The reason I'm asking these
18 questions, okay, Mr. Cohen, is that since Ms.
19 Wright's deposition, various notes have come out.
20 They have been released by the White House. The
21 White House has been dilatory in producing documents
22 to the Committee.

14

1 It's certainly fair game for me to ask Ms.
2 Wright about meetings of which there are notes that
3 we just got, after her deposition.

4 If you would let me do that, it will take
5 a very few minutes. And I would be remiss in my
6 duties and obligations to the Committee if I did not
7 ask her about these meetings and particularly, one in
8 particular, which I'm sure you're aware of, that
9 references Ms. Wright, that was discussed publicly at
10 the hearing.

11 MR. COHEN: Why don't you ask her about a
12 note that specifically discusses her?

13 Because you have previously asked her of
14 her meetings. She's told you what she knows of her
15 meetings.

16 If you've got a note that you'd like to
17 ask her about, that talks about one of those
18 meetings, on this limited issue, for the reason you
19 just articulated, I certainly withdraw my objection
20 there. But each one of us in this room could ask,
21 cover the same areas asking different questions about
22 them, and that's not our purpose in being here today.

1 MR. GIUFFRA: I know it's not.

2 But my question the last time was what
3 meetings she attended.

4 The question I'm asking her now is was she
5 aware of the fact that they were holding Whitewater
6 defense team meetings in January 1994?

7 THE WITNESS: I was not aware of a formal
8 Whitewater defense team, per se. I knew that they
9 had to be having meetings about what to do.

10 BY MR. GIUFFRA:

11 Q Did you have any conversations with anyone
12 at the White House in January 1994 about whether
13 special counsel should be appointed to investigate
14 Whitewater?

15 (Pause.)

16 A You know I might have. I remember
17 conversations about releasing documents publicly,
18 discussions about the pros and the cons of that.

19 Q And those conversations would have been
20 with who?

21 A Maybe Gergen, maybe Bruce, maybe Mac. I
22 don't remember for sure. I mean, they weren't

1 seeking my input in a formal way. I think it would
2 have been just passing conversation.

3 The reason I don't know whether I
4 discussed special counsel is because at that time I'm
5 not certain I completely and totally understood the
6 difference between a special counsel and whatever the
7 Justice Department was doing.

8 Q Did you discuss anything having to do with
9 the appointment of a special counsel or independent
10 counsel with the President or First Lady?

11 A I didn't discuss it.

12 I was told by the First Lady that there
13 was going to be an independent counsel.

14 Q Do you recall anything more about the
15 conversation you had with the First Lady in which she
16 indicated there would be an independent counsel,
17 that's what your testimony is, or a special counsel?

18 A I don't know the difference.

19 Q Some sort of special kind of counsel, do
20 you recall anything more about that conversation?

21 A Yes.

22 I was talking to her primarily because it

1 had been my intent, on locating the gubernatorial
2 campaign finance records, to take them to Mr.
3 Kendall's office, which is why I had told Mr. Kendall
4 that I was going to go get them.

5 And Mr. Kendall told me at, it was either
6 at Virginia's funeral or the night before, Virginia
7 Kelly, that he wouldn't take them.

8 I didn't understand that, and so I was
9 having a conversation with Hillary the day after the
10 funeral by phone, primarily about Virginia and the
11 funeral, but I said something that I was troubled
12 that Kendall had said he wasn't going to take these.

13 And she said, Betsey, there is going to be
14 an independent or special counsel. You need to get a
15 lawyer. And that's how you will handle these
16 documents.

17 Q Did she say anything more about why you
18 would need to get a lawyer?

19 A Because I essentially had custody of the
20 documents.

21 Q Did she say anything more to you during
22 the course of this conversation bearing on either

1 Whitewater or Madison?

2 A No.

3 Q And that's the only conversation you've
4 had with the First Lady in which there was discussion
5 of a special counsel or independent counsel?

6 A Correct.

7 Q You never had any conversation with the
8 President about the special counsel or independent
9 counsel?

10 A Not that I remember having.

11 Q Did you ever have any discussions with Mr.
12 Hubbell about the appointment of an independent or
13 special counsel?

14 A No.

15 Q Just so the record is clear, the
16 conversation was the day after Virginia Kelly's
17 funeral?

18 A As I recall, yes.

19 Q Which would have been in January 1994.

20 Do you recall any other conversation you
21 might have had with anyone affiliated with the White
22 House about the appointment of a special or

1 independent counsel?

2 A No.

3 Q You did not speak to Mr. Ickes about the
4 appointment of a special or independent counsel?

5 A No. I was never in a serious conversation
6 with anybody anywhere about it.

7 Q During 1993, did you have any
8 conversations about Whitewater with Mr. Nussbaum?

9 A No.

10 Q By Whitewater, I include also in that,
11 Madison, as well.

12 A I don't think I ever had any conversations
13 with?

14 Q With Bernie. Okay.

15 Now, while you were in Little Rock in
16 January 1994, did you see or speak to Skip
17 Rutherford?

18 A No.

19 Q Beverly Bassett Schaffer?

20 A No.

21 Q Archie Schaffer?

22 A No.

1 I mean I may have seen them at the
2 funeral, I mean, you know, and done a hello, but in
3 terms of talking about anything, no.

4 Q Now prior to --

5 Strike that.

6 Did you have any discussion at any time
7 with anyone, other than your counsel, about the
8 possibility that you might be indicted for something
9 having to do with Whitewater or Madison?

10 A No.

11 Do you want to know why I think Bernie
12 threw my name out?

13 MR. COHEN: No, we don't need you to
14 speculate as to what Mr. Nussbaum's thought processes
15 were.

16 BY MR. GIUFFRA:

17 Q There's a note from a meeting that was
18 held January 7th in Mr. McLarty's office. These are
19 notes from Mr. Ickes. The Bates number is S20578.

20 (Handing document to witness.)

21 BY MR. GIUFFRA:

22 Q Mr. Nussbaum apparently says, indictments

1 will be Betsey Wright.

2 MR. COHEN: This is all there is on this?

3 MR. GIUFFRA: Yes.

4 MR. COHEN: These are whose notes?

5 MR. GIUFFRA: I believe it's Ickes'.

6 THE WITNESS: It's Gearan's. You've just
7 got to watch these spin boys.

8 MR. GIUFFRA: I'm sorry, I apologize. We
9 have Ickes' notes and Gearan's notes. Yes, these are
10 Gearan's notes.

11 BY MR. GIUFFRA:

12 Q You never had any conversation with Mr.
13 Nussbaum in which any kind of discussion of you being
14 indicted came up?

15 A No.

16 Q Do you have any understanding or belief as
17 to why Mr. Nussbaum would have said, at this meeting
18 of January 7th, at least according to Mr. Gearan's
19 notes, indictments will be Betsey Wright?

20 A I have a theory, but my lawyer has to
21 listen to it.

22 Q It doesn't matter. Unless you had a

22

1 conversation with Mr. Nussbaum about it, or anyone
2 else. I'm not going to have my client speculate.

3 BY MR. GIUFFRA:

4 Q Do you have some reason to believe why he
5 would have mentioned your name in this context?

6 MR. COHEN: Mr. Nussbaum's lawyer will tell
7 you and Mr. Nussbaum will tell you that he was
8 telling the President that a bad special counsel
9 would go around trying to indict people just to make
10 trouble.

11 Now I'm not going to have Ms. Wright
12 speculate as to Mr. Nussbaum's thought processes.
13 This is well beyond.

14 BY MR. GIUFFRA:

15 Q Has anyone said anything to you indicating
16 why Mr. Nussbaum might have mentioned your name in
17 this context at this January 7th meeting? That's as
18 of today?

19 (Pause.)

20 A No. I just remember the press environment
21 of the time.

22 Q Do you think it was something in the press

1 environment of the time that would have caused Mr.
2 Nussbaum to make this statement about you?

3 A Sure.

4 Q What is it in the press environment on
5 January 7th --

6 MR. COHEN: This is exactly --

7 MR. GIUFFRA: Can I ask her a factual
8 question.

9 BY MR. GIUFFRA:

10 Q Was there any discussion in press reports
11 in the period around January 7, 1994, which had to do
12 with the discussion of you being indicted?

13 A Not at all.

14 Q Were reporters speculating amongst
15 themselves, as far as you know, that you might be
16 indicted at some time?

17 A Not at all.

18 Q So you have no understanding as to why Mr.
19 Nussbaum mentioned your name in this context?

20 MR. COHEN: You've asked it, she's
21 answered it.

22 Your next line of inquiry should be of Mr.

1 Nussbaum, Bob. This is beyond --

2 MR. GIUFFRA: Let's go off the record.

3 (Discussion off the record.)

4 BY MR. GIUFFRA:

5 Q Ms. Wright, are you aware of a Whitewater
6 defense team meeting that was held on January 16,
7 1994?

8 A I don't know.

9 MR. COHEN: She's already said she wasn't
10 aware that there was such a group, so there's no
11 foundation for that question.

12 MR. GIUFFRA: I don't think that's exactly
13 what her testimony is.

14 THE WITNESS: Is there a reason why I
15 might be aware of that meeting?

16 BY MR. GIUFFRA:

17 Q Notes we have of Mr. Ickes' of this
18 meeting mentioned yourself, along with Anne Wexler.
19 Would you know why you might have been mentioned at
20 this meeting, or Ms. Wexler would have been
21 mentioned?

22 A How were we mentioned?

1 Q Let me show you a document that bears
2 Bates Number S20793.

3 (Handing document to witness.)

4 BY MR. GIUFFRA:

5 Q I direct your attention to notation number
6 five.

7 (Pause.)

8 A Do you know what this says?

9 Q I don't know. I think it's just Betsey
10 Wright, and it looks like Paul G. Then there's an
11 arrow, Anne Wexler.

12 MR. COLE: Mr. Ickes' handwriting is not a
13 model of clarity.

14 BY MR. GIUFFRA:

15 Q The notation below it looks like House
16 Banking Committee. The notation above it, HRC - it
17 says lawyer on this.

18 You don't know why you would have been
19 mentioned at one of these meetings?

20 A Do you know what the topic of any of these
21 points is?

22 (Pause.)

1 Q It appears to be within the context of a
2 discussion about the Rose Law Firm.

3 A What do you think number three says?

4 MR. COHEN: His question is pretty simple.
5 Do you know what number five is referring to. If
6 not, we can move on.

7 If you do know, tell him.

8 BY MR. GIUFFRA:

9 Q Number three could be legal counsel of BC
10 and HRC.

11 A It looks to me like it says legal costs.

12 And, no, I don't know what that means.

13 Q Let me show you a document that bears
14 Bates number S8512 through 8529.

15 (Handing document to witness.)

16 BY MR. GIUFFRA:

17 Q Have you ever seen this document before?

18 (Pause.)

19 A I don't think I have.

20 Q Do you know a man named Herbie Branscomb?

21 A Yes.

22 Q Who is Herbie Branscomb?

1 A How does one answer a question like that?
2 He was the chairman of the State's
3 Democratic Party of Arkansas when I moved there and
4 during the '82 campaign.

5 MR. COLE: It might be helpful, Ms.
6 Wright, I don't know if this is the exact point you
7 were raising, but just to help you with responding to
8 Mr. Giuffra's questions, there's a provision in the
9 Resolution that authorizes this Committee to inquire
10 into "the lending activities of Perry County Bank,
11 Perryville, Arkansas, in connection with the 1990
12 Arkansas gubernatorial election," which may be a
13 relevant context to put Mr. Giuffra's questions in.

14 THE WITNESS: I know absolutely nothing
15 about the lending activities of Perry Bank with the
16 '90 campaign.

17 BY MR. GIUFFRA:

18 Q So I'm just asking, you say he was
19 Chairman of the State Democratic Party in Arkansas
20 when you arrived in Arkansas in 1982.

21 Do you know anything more about Mr.
22 Branscomb?

1 A He was a lawyer, a banker, and I saw him
2 frequently at party activities. I called him from
3 time to time for advice and assistance.

4 Q Was he, did he ever visit, as far as you
5 know, the Governor's office?

6 A I'm sure he did.

7 Q Was he someone who would have visited the
8 Governor's mansion?

9 A I'm sure he did.

10 As I told you last time, we tried to
11 invite all of our key workers and contributors and
12 supporters to various social events at the mansion.

13 Q So he would have been a key worker or
14 contributor during the 1980s?

15 A I think he was always our county campaign
16 coordinator in Perry County, yes. I mean, he was a
17 notable Democrat over there. He was on the State
18 Claims Commission during the time that we were there
19 and they met in our building. Their offices were in
20 the state capital building.

21 And I remember we had quite a furor about
22 them with the legislature in one session, so I know

1 Herbie was in and out of the office during that.

2 There were lots of matters.

3 Q What was the furor that they had with the
4 legislature that you recall Mr. Branscomb being
5 involved in?

6 A What could the relevance of that question
7 be?

8 THE WITNESS: About the existence of the
9 Claims Commission, whether to continue to it.

10 BY MR. GIUFFRA:

11 Q Do you know anything about the appointment
12 of Mr. Branscomb to the Arkansas State Highway
13 Commission?

14 A No. I just know that it happened. That
15 was after I left the Governor's Office. I was there
16 when he was appointed to the UCA Board.

17 MR. COLE: UCA being the University of
18 Central Arkansas for the non-Arkansans in the room.

19 MR. GIUFFRA: Thank you for that.

20 MR. COLE: Whatever I can do to help.

21 BY MR. GIUFFRA:

22 Q Do you know a man named Robert Hill?

1 A I've heard of him.

2 Q Do you know who he is?

3 A Do I read newspapers, is that what you're
4 asking me?

5 Q During the 1980s, did you have dealings
6 with Robert Hill while you were Chief of Staff to the
7 Governor?

8 A He was generally a contributor and
9 supporter campaign worker.

10 Q In Perry County?

11 A Yes.

12 Q What position did Mr. Hill hold during the
13 1980s as far as you know?

14 A I don't remember.

15 Q Do you know anything about the appointment
16 of Mr. Hill to the Arkansas State Banking Commission?

17 A I know that it happened. I just don't
18 recall --

19 Q Were you Chief of Staff during the time
20 when he was appointed?

21 A I don't know. I think so but I'm not
22 positive. Do you know the date when he was

1 appointed?

2 Q I don't have the date right here, but you
3 don't recall having any involvement in the
4 appointment of Mr. Hill to the Arkansas State Banking
5 Commission?

6 A No, I don't have a specific recollection.

7 Q General recollection?

8 A No.

9 Q Were you normally involved in the
10 appointment of officials to the State Banking
11 Commission?

12 A I oversaw all the appointments which meant
13 thousands.

14 Q Are you aware of any meetings between Mr.
15 Branscomb and Governor Clinton?

16 MR. COLE: What time period?

17 MR. GIUFFRA: During the 1980s.

18 MR. COHEN: Other than the ones that she
19 has just testified about, which included visiting the
20 Governor's office, the Governor's mansion, the State
21 Claims process. You mean something other than she's
22 already testified to?

32

1 BY MR. GIUFFRA:

2 Q Yes, anything other than what you've
3 already testified to, any specific meetings?

4 A I don't remember specific meetings.

5 Q Any of the general subjects that Mr.
6 Branscomb would have met with Governor Clinton about
7 that you haven't already testified to?

8 A Mr. Branscomb was a reliable advisor and
9 friend. I wouldn't be at all surprised. I'm certain
10 that they had conversations from time to time, yes.
11 Mr. Branscomb was involved with a number of major
12 political leaders in the State, not just us, and
13 worked in our building, you know, the capital
14 building.

15 Q Do you recall any meetings between
16 Governor Clinton and Mr. Hill?

17 A I don't.

18 Q Do you recall any meetings with Mr.
19 Branscomb regarding a campaign fundraiser?

20 MR. COLE: I would ask you, Ms. Wright, to
21 only make your response to that to what is included
22 in Senate Resolution 120, which is the 1990 campaign.

1 MR. GIUFFRA: Let's put this on the
2 record.

3 One. Messrs. Branscomb and Hill have
4 recently been indicted by the independent counsel.

5 MR. COLE: I would note that that fact
6 does not expand the jurisdiction of this Committee,
7 Mr. Giuffra.

8 MR. GIUFFRA: Let me finish.

9 Number two. General background questions
10 going to the activities of Mr. Branscomb and Mr. Hill
11 during the 1980s clearly falls within a matter having
12 any tendency to reveal the full facts about the
13 lending activities of the Perry County Bank in
14 connection with the 1990 Arkansas gubernatorial
15 campaign.

16 MR. COLE: We've just had a long series of
17 general background questions to which I've not
18 objected, but now you've asked something that's not a
19 general background question, it's a very specific
20 question that is on subject matter that is, to my
21 reading, not covered by this Resolution.

22 MR. GIUFFRA: I guess we just have a

1 different reading of the Resolution.

2 MR. COHEN: She's told you, Mr. Giuffra,
3 that she doesn't know anything about the lending
4 activities of the Perry County Bank in 1990. I think
5 she's told you everything. She has no specific
6 recollection of the substance of any conversations
7 between the Governor and Mr. Branscomb.

8 MR. GIUFFRA: Why don't I ask the
9 question.

10 If you want to instruct her not to answer
11 the question, we'll follow the procedure.

12 BY MR. GIUFFRA:

13 Q Do you recall attending any meetings with
14 Mr. Branscomb at which fundraising activities
15 relating to the Governor's campaigns were discussed?

16 MR. COLE: Actually, Ms. Wright, I'm going
17 to ask you not to answer that question except with
18 respect to the 1990 gubernatorial campaign. That's
19 the only subject matter that's encompassed by this
20 Resolution. And there's just no basis for expanding
21 this inquiry beyond what's in the Resolution.

22 If Mr. Cohen disagrees, then I would not.

1 MR. COHEN: I agree.

2 Why don't you ask it.

3 THE WITNESS: I know nothing about any
4 meetings between the two of them on our
5 conversations.

6 BY MR. GIUFFRA:

7 Q Now did you attend any meetings, you
8 yourself, Betsey Wright?

9 A I didn't attend any meetings on the 1990
10 campaign fundraisers.

11 Q I'm asking about any other campaign?

12 MR. COHEN: She's only answering it --

13 MR. GIUFFRA: I just want to make sure the
14 record's clear.

15 MR. COHEN: Yes, I'm sorry. Just let me
16 help you on that. I'm going to instruct her,
17 consistent with what Mr. Cole said, and my own
18 understanding of this, which I don't need to argue
19 with you about, to answer with respect to 1990.

20 MR. GIUFFRA: Let's go off the record for
21 a second.

22 (Discussion off the record.)

1 MR. GIUFFRA: Make that first phone call
2 first.

3 MR. COLE: Off the record for a moment.
4 (Discussion off the record.)

5 MR. GIUFFRA: Back on the record.

6 BY MR. GIUFFRA:

7 Q Ms. Wright, have you read the recent
8 indictment by the Office of the Independent Counsel
9 of Messrs. Branscomb and Hill?

10 A Yes.

11 Q Have you discussed that indictment with
12 anyone other than your counsel?

13 MR. COHEN: Does this one fit within the
14 Resolution?

15 MR. COLE: I mean, if she has knowledge of
16 the events concerning the 1990 campaign that are
17 reflected in that indictment, then of course that's a
18 relevant line of inquiry. But her reaction to an
19 event that occurred in 1996, that is, an indictment
20 and discussions that she may or may not have had with
21 friends, mutual acquaintances and colleagues or
22 whatever, I don't see.

1 MR. GIUFFRA: We don't know what
2 conversations, if any, she's had.

3 MR. COHEN: And then the question is, are
4 you entitled to know.

5 MR. GIUFFRA: I think I am. You may not
6 agree.

7 MR. COLE: For starters, the question
8 could be answered with a yes or a no, I think.

9 BY MR. GIUFFRA:

10 Q The question is, have you had any
11 conversations with anyone, other than your counsel,
12 about the indictment of Messrs. Branscomb and Hill?

13 A I have had conversations with people in
14 which the indictments were acknowledged, but no
15 further discussion about them.

16 Q Do you know anything about the substance
17 of the allegations against Messrs. Branscomb and
18 Hill?

19 A Just newspaper reading, that's all.

20 Q Have you ever discussed with anyone other
21 than your counsel, the December 1990 meeting between
22 Mr. Hill and then Governor Clinton?

38

1 A Not even since I saw it discussed on C-
2 SPAN, which is the only way I know about it, and
3 newspaper reports.

4 Q Let me show you, this is a typed up
5 version of Mr. Ickes' notes that we received from Mr.
6 Ickes' counsel. Maybe that will assist you in trying
7 to figure out why you were referred to.

8 (Handing document to witness.)

9 BY MR. GIUFFRA:

10 Q It actually says five. Betsey Wright, Pat
11 G.

12 MR. COHEN: When the Committee had Mr.
13 Ickes, he would have been the best person to ask why
14 he wrote her name down.

15 Did anyone undertake to ask that question?

16 MR. COLE: I wasn't at that hearing, but
17 he was there for about eight hours, so I'll defer to
18 Mr. Giuffra, although I guess you weren't there for
19 the eight hours?

20 (Pause.)

21 THE WITNESS: It means nothing to me.

22 BY MR. GIUFFRA:

1 Q Do you know who Pat G. would be? Do you
2 know a Pat G.?

3 A No.

4 (Pause.)

5 BY MR. GIUFFRA:

6 Q During the time you were Chief of Staff
7 for Governor Clinton, did you have any knowledge of
8 an entity called Castle Sewer & Water?

9 A Cursory knowledge.

10 Q What do you know about Castle Sewer and
11 Water?

12 MR. COHEN: Could you ask that question,
13 only with a hair more precision?

14 BY MR. GIUFFRA:

15 Q What if any actions did you take --
16 Strike that.

17 What contact, if any, did you have with an
18 entity called Castle -- or let me strike that.

19 What contact, if any, did you have during
20 the 1980s relating to an entity called Castle Sewer &
21 Water?

22 A I'm aware that Castle Grande Sewer & Water

1 or Castle Sewer & Water was part of the development
2 of Jim McDougal.

3 Q What was the basis for your knowledge?

4 A I don't know specifically. There were
5 interactions on some of those developments. There
6 were TV ads on some of those developments. And so I
7 may have been aware of it because of some specific
8 action that the Governor's office had brought to its
9 attention.

10 I don't remember specifically.

11 Q Do you recall any specific actions that
12 the Governor's office took bearing in any way on the
13 activities of Castle Sewer & Water?

14 A Well, is that the one, was the legislation
15 you discussed with Sam Bratton on Castle Sewer &
16 Water?

17 Q When you worked for the Governor, were you
18 responsible for handling legislative work?

19 A Just some of it, I mean --

20 Q General supervisory authority over the
21 legislation, right?

22 A Yes.

1 Q With regard to vetoing of legislation,
2 what was your role?

3 A I was always present for the signing and
4 vetoing of bills and listening to the recommendations
5 of the bill clerk and the counsel.

6 Q Would you have discussed whether to veto a
7 bill with the Governor during the normal course?

8 A If it were one where there was a serious
9 dilemma, we would have had a conversation, yes. I
10 would have been a part of the group discussion.

11 Q Were regular meetings held in the
12 Governor's office in which decisions were made as to
13 whether the Governor should veto a bill?

14 A When the bills were brought to him by the
15 bill clerk and by the counsel.

16 Q Is this the chief counsel to the Governor?

17 A Yes. General counsel, we called it. Then
18 they would go through pros and cons of the vetoing.

19 Q This would be a meeting that would be
20 attended by the Governor, yourself, the general
21 counsel and the bill clerk?

22 A And usually we brought in the press

1 person.

2 MR. COLE: Are we speaking hypothetically
3 here or is this specific to the Castle Sewer & Water
4 legislation that Ms. Wright referenced?

5 MR. GIUFFRA: I was just asking her
6 generally what was the normal practice.

7 THE WITNESS: That was the normal
8 practice, because as soon as we had a session, the
9 press secretary is responsible for putting out a list
10 to the press of what had been signed, and if there
11 had been any vetoes, what they had been, and
12 releasing the veto message.

13 (Pause.)

14 BY MR. GIUFFRA:

15 Q Do you have any knowledge of a House bill
16 called 1780, which was a bill relating to deregulate
17 ratemaking for small utilities in Arkansas?

18 MR. COLE: I think also, Ms. Wright, it
19 might be helpful if you see testimony about these
20 events at the Committee's public hearings recently.
21 We are obviously interested in what you know from the
22 time the events occurred, not what you've learned

1 during public testimony.

2 Or do you disagree, Mr. Giuffra? Do you
3 want her to testify about what she saw on television?

4 MR. GIUFFRA: She can obviously delineate
5 what she saw on television, but if things on
6 television refresh her recollection, I think, of
7 course.

8 THE WITNESS: Yes. I mean, the Bratton
9 testimony refreshed my recollection a great deal
10 about that particular piece of legislation.

11 BY MR. GIUFFRA:

12 Q What, if anything, do you recall about
13 that House bill 1780?

14 A Well, now I remember a lot about it
15 because of Mr. Bratton's testimony.

16 Q Why don't you tell us what you recall
17 about that bill?

18 A I recall what I learned from Mr. Bratton's
19 testimony, that we vetoed because it was local
20 legislation and unconstitutional. That people who
21 had worked on the legislation, Mr. Randolph, Mr.
22 Tucker, who we didn't even know were associated with

44

1 it. I mean, we knew virtually nothing about it
2 except that it was unconstitutional.

3 Then complained about the veto, and we
4 were unapologetic about the veto because it was very
5 proper. They were given guidance on what was
6 improper about it, if they wanted to introduce new
7 legislation.

8 Q Do you recall any discussions you had with
9 Governor Clinton about the veto of House bill 1780?

10 A Not specifically, no.

11 Q Generally?

12 A No.

13 Q Do you recall anything about conversations
14 you might have had with Mr. Bratton about the veto of
15 House bill 1780?

16 A I believe that most of what we did on this
17 was handled by exchange of written notes and memos.
18 I think there really weren't meetings or a lot of
19 conversations in the office about them. It was not a
20 matter of paramount importance to us.

21 Q Was it a matter of any importance?

22 A We tried to deal with any citizen's

1 problem as a matter of importance.

2 Q Do you recall who the persons were
3 advocating the signing of this bill?

4 MR. COHEN: Other than Tucker and Randolph
5 whom she's just identified.

6 THE WITNESS: Nobody advocated at the time
7 we vetoed it. I don't think we heard from anybody.
8 It was subsequent to the veto. I don't think we even
9 knew what it was about, except that it was obviously
10 local legislation. We never identified it as having
11 any connection with McDougal or anything else.

12 It didn't matter. It was unconstitutional
13 legislation.

14 Q Do you recall why it was unconstitutional?

15 A Because it was local and specific.

16 Q Do you recall that from Mr. Bratton's
17 testimony, or do you recall that independently as you
18 sit here today?

19 A Pieces of both.

20 Q Do you recall anything more about the
21 vetoing of HR 1780, other than what you've testified
22 here today?

1 A No.

2 Q Now after the bill was vetoed, do you
3 recall what happened next?

4 A From the testimony, I now know that
5 apparently this memo in front of me came from Nancy
6 Hernreich about a visit to the office by R.D.
7 Randolph and Sam's subsequent conversations with Jim
8 Guy Tucker and subsequently getting legislation that
9 was proper.

10 Q Did you have any conversations with Jim
11 Guy Tucker during 1987 about Castle Sewer & Water?

12 A I did not.

13 Q Any conversations with Jim Guy Tucker
14 during 1987 about Jim Guy Tucker or the Governor's
15 relationship with Jim McDougal?

16 MR. COLE: I'm sorry, I didn't hear that
17 question.

18 MR. GIUFFRA: I'll rephrase it.

19 BY MR. GIUFFRA:

20 Q Did you have any discussions with the
21 Governor during 1987 --

22 Strike that.

1 Did you have any discussions with Jim Guy
2 Tucker during 1987 in which Jim McDougal was
3 mentioned?

4 A I don't believe so.

5 Q Any discussions in which Madison was
6 mentioned?

7 A I don't believe so.

8 Q A 1985 fundraiser held at Madison, was
9 that mentioned during any conversation you had with
10 Jim McDougal?

11 MR. COHEN: Didn't you mean Tucker?

12 MR. GIUFFRA: Tucker, I'm sorry, I
13 apologize.

14 THE WITNESS: I don't think so. I don't
15 remember talking to Mr. Tucker at all. The only time
16 I think I might have talked to him in '87 was that I
17 was on Jury duty in a voir dire that he participated
18 in, so I answered his questions. I believe that was
19 the only conversation we had in '87.

20 BY MR. GIUFFRA:

21 Q What do you recall, if anything, about Act
22 37, which was signed into law in 1987 by the Governor

1 relating to deregulation of ratemaking for small
2 utilities?

3 MR. COHEN: Is the first vetoed piece of
4 legislation, because we don't know it by numbers.

5 BY MR. GIUFFRA:

6 Q What do you recall about the piece of
7 legislation that was actually signed?

8 A That they got it fixed. They took away
9 the objection about the unconstitutional part of it
10 and got it passed through the legislature, and we
11 signed it.

12 Q Do you recall anything more about the
13 circumstances under which this bill was signed?

14 A No, I don't. Sam handled that.

15 Q Do you recall any meetings attended by the
16 Governor at which legislation relating to ratemaking
17 by small utilities was discussed?

18 A I don't.

19 Q You don't recall any conversations you
20 would have had with Mr. Bratton about the bill that
21 was actually enacted into law?

22 A I don't.

1 Q No recollection of conversations with the
2 Governor?

3 A I don't have any.

4 Q No recollection of conversations with
5 persons outside the Governor's office?

6 A No.

7 Q No recollection of conversations with
8 legislators?

9 (Pause.)

10 A I had several conversations with
11 Representative Bill Walker about pieces of
12 legislation. That may be one of them. I know he
13 became involved in it, and that's why I'm not
14 positive whether that's one I discussed with him or
15 not.

16 Q Why do you know that Mr. Walker became
17 involved in it?

18 A Through review of documents for the
19 preparation of this deposition.

20 Q Do you recall any conversations you might
21 have had with Mr. Walker?

22 A No.

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1 Q Do you recall any conversations you might
2 have had with Mr. Randolph about this legislation
3 before or after the veto?

4 A No.

5 Q Any conversations with Mrs. Clinton either
6 before or after the veto?

7 A No.

8 Q What was Nancy Fulbright's responsibility
9 in April 1987?

10 A She was the scheduling secretary.

11 Q Would she have taken messages for the
12 Governor?

13 A If people called to ask for appointments
14 or meetings, she got as much information as possible.

15 Q Was R.D. Randolph someone who had a close
16 relationship to the Governor in 1987?

17 A I mean he was someone who worked for Jim
18 McDougal and he'd been around for a long time. I
19 wouldn't call it close. He was just someone who was
20 there.

21 Q So your understanding of Mr. Randolph's
22 role was that he worked for Jim McDougal?

1 A I think so.

2 Q Do you know what he did for Mr. McDougal?

3 A I don't.

4 Q Mr. Randolph, was he a political supporter
5 of the Governor's?

6 A Yes. And he had been at that Madison
7 fundraiser.

8 Q Do you recall any activities in which Mr.
9 Randolph was involved relating to the gubernatorial
10 campaigns of Governor Clinton?

11 A No, I don't think he was an activist.

12 Q Do you recall any communications you might
13 have had with Mr. Randolph during the 1980s?

14 I apologize for the broad nature of the
15 question.

16 A I know, I don't remember specifically, I
17 may have talked to him two or three times over the
18 years in campaigns, in the Governor's office, but I
19 can't recall the substance of any of those contacts.

20 Q Do you know if Mr. Randolph was someone
21 who met with the Governor during the 1980s?

22 A I don't. But I guess, you know, I didn't

1 go out on the campaign trail with the Governor
2 because I stayed in headquarters managing the
3 campaigns and he met with thousands of people that I
4 never saw. And he always stayed until the last
5 person left.

6 Q Do you recall any instance in which Mr.
7 Randolph came to visit the Governor's office in the
8 state capital?

9 A I think I had a meeting with him maybe
10 once, either a phone conversation or a meeting in my
11 office, about his need for employment after he left
12 in the late eighties, after whatever that was fell
13 apart.

14 Q Madison?

15 A I don't know whether he worked for Madison
16 or what he worked for.

17 MR. COLE: Could I ask one question about
18 Mr. Randolph, just for the record?

19 MR. GIUFFRA: Sure.

20 MR. COLE: Do you know whether Mr.
21 Randolph had worked for Senator Fulbright?

22 THE WITNESS: I don't. I don't know much

1 about him at all.

2 But again, I will tell you that I'm aware
3 of that memo from Nancy Hernreich from watching the
4 Bratton-Hernreich testimony.

5 BY MR. GIUFFRA:

6 Q I'm going to show you that document,
7 DKS1008. This appears to be a message slip to the
8 Governor. Is this the standard form document that
9 you had in the Governor's office in 1987?

10 A Yes.

11 Q U-huh means yes?

12 A I'm sorry, yes.

13 Q Did you normally review all of these
14 message slips that were left for the Governor?

15 A That's a memo.

16 Q What would this be called within the
17 parlance of your office during 1987?

18 A A memo.

19 Q Would you have reviewed every memo to the
20 Governor in 1987?

21 A Oh, yes.

22 Q Do you recall seeing this memo?

1 A I don't know if I recall it at that
2 moment, no.

3 Q Do you have any recollection, after
4 reviewing this memo, of Mr. Randolph being angry
5 about anything in 1987?

6 A No, not specifically.

7 Q Generally?

8 A No. I mean, generally all I know is that
9 when we didn't do something that people wanted us to
10 do, they got angry.

11 Q Do you recall Mr. Randolph being angry
12 during 1987 with regard to the vetoing of the water
13 bill?

14 (Pause.)

15 A Well, I think I vaguely remember seeing
16 this and knowing it from this.

17 Q You vaguely remember seeing this memo
18 bearing Bates number DKS1008?

19 A Right.

20 Q Do you recall anything more about what you
21 did when you saw this memo?

22 A I wrote "See if Sam will call him."

1 Q So that handwriting's yours?

2 A Correct.

3 Q Is your handwriting anyplace else on this
4 memo?

5 A No.

6 Q Where it says, it looks like U-G-H, is
7 that Governor Clinton's handwriting?

8 A Yes.

9 Q And that's where it says someone I think
10 UGH, who needs to call Tucker. It appears to be
11 directed to that sentence.

12 A Oh, I don't know that. I think it was
13 just general "ugh" to the whole thing.

14 Q Do you know why he might have written ugh
15 there?

16 A That was his reaction to this whole thing.

17 Q Did you discuss what his reaction was to
18 the issues raised in this memo? Do you recall any
19 discussion about the issues raised in the memo?

20 A No. I think it all was just a matter of
21 notes on pieces of paper that went back. I don't
22 think we had meetings and discussions about this.

1 Q Do you recall any communications you had
2 with the Governor about the vetoing of the water
3 bill?

4 A I don't.

5 Q What was the nature of the Governor's
6 relationship with Jim Guy Tucker in 1987? Were they
7 on friendly terms?

8 A Friendlier than it had been in '82. But
9 they weren't particularly friendly.

10 Q Have you ever discussed this memo with
11 Nancy Hernreich?

12 A No.

13 Q Have you ever discussed this memo with
14 Governor Clinton at any time?

15 A I don't think so, no.

16 Q Have you ever discussed this memo with Sam
17 Bratton?

18 (Pause.)

19 A We might have talked about it. I mean
20 generally when a constituent was upset, we tried to
21 talk to them, to make sure we understood, to see if
22 there was a way it was reasonable to be of

1 assistance. I don't think we had conversations. I
2 mean we all had the same reaction to this.

3 It is just, it was something that was so
4 offensive, when people would get mad at you for some
5 action you had taken, that the Governor had taken, or
6 that we on the Staff had taken, and throw up a
7 campaign contribution, and I think that that's
8 probably, in retrospect, what he was doing here. And
9 it used to make us very angry because the two didn't
10 meet.

11 Q What's the basis for your belief? In this
12 memo, there's a reference to \$33,000?

13 A Yes. You know, I can only guess that he
14 was talking about the Madison fundraiser which I
15 never at that time thought raised that much money,
16 because at the fundraiser, we left with only about
17 \$22,000 or something.

18 MR. COHEN: That's a guess, Ms. Wright?

19 THE WITNESS: It's a total guess. I can
20 only think this in retrospect was what he was doing.
21 But it is infuriating to read that kind of
22 connection, which he was obviously trying to make.

1 BY MR. GIUFFRA:

2 Q Are you aware of any instances in which
3 there was ever a connection between governmental
4 action and political campaign contributions during
5 the 1980s?

6 A No. Whether the contributions were to us
7 or to our opponent, we continued trying to be
8 wonderfully good public servants.

9 MR. COLE: I thought it was important to
10 let you answer that question, even though it's
11 outside the scope.

12 MR. COHEN: Before you objected, I knew it
13 was objectionable.

14 MR. COLE: It's clearly outside the scope.

15 MR. COHEN: Even Mr. Giuffra knew it was
16 an objectional question.

17 MR. COLE: But I don't want to suggest on
18 the record that the full facts aren't coming out
19 here, so I'm glad you answered that question.

20 BY MR. GIUFFRA:

21 Q You never discussed with Governor Clinton
22 on any occasion, the fact that someone had made a

1 campaign contribution and wanted some governmental
2 action?

3 A Here's the way those conversations usually
4 happened. It was, and we can't do it for them, so
5 which one of us is going to call them and try to keep
6 them from blowing up. I mean that was the way it
7 usually happened.

8 Q Was there a concern about the fact that
9 someone who had given a campaign contribution might
10 blow up if the Governor did not take certain action
11 that was requested?

12 A We were pretty much concerned about
13 keeping people from blowing up. That was a general
14 goal. We didn't like blow-ups.

15 Q So that if someone had not given a
16 campaign contribution, you might never have had a
17 discussion with the Governor about whether he should
18 take some governmental action?

19 MR. COLE: I'm not following this line of
20 questioning. It's getting very speculative.

21 Are you asking Ms. Wright about something
22 specific, Mr. Giuffra, or are you just asking her to

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1 speculate?

2 MR. GIUFFRA: I'm asking her about her
3 recollection.

4 MR. COHEN: Is this just a general
5 question about good government in Arkansas in the
6 1980s, Mr. Giuffra?

7 MR. GIUFFRA: You can describe it however
8 you want to.

9 MR. COHEN: I'm just looking for some
10 linkage to the reason we're in here.

11 MR. GIUFFRA: I think it's connected to
12 any number of things in the Resolution.

13 MR. COHEN: You get one free answer on
14 good government in the 1980s.

15 THE WITNESS: I don't know what the
16 question was.

17 MR. GIUFFRA: Why don't I restate the
18 question?

19 BY MR. GIUFFRA:

20 Q Were persons contributing to Governor
21 Clinton's gubernatorial campaigns given any
22 additional access or consideration with regard to

1 governmental actions during the 1980s?

2 A I think everybody had some kind of access.
3 It seems to me like we gave a lot of special access
4 to opponents. I remember those.

5 Q But if someone who was a contributor, were
6 they given any special consideration with regard to
7 governmental action?

8 MR. COHEN: I think she's answered, and
9 I'm going to direct her not to answer any more
10 questions. She's really fully fleshed out.

11 THE WITNESS: Not because they were a
12 contributor, but because they were a citizen of the
13 State, they may have been given special
14 consideration. I mean, I'm far more focused on all
15 the times when I didn't agree on somebody who had
16 fought us every single time, and Bill Clinton's
17 nature was, they are citizens of the State, and I'm
18 their Governor too. So you just calm down. We're
19 going to help them.

20 MR. COLE: I think that pretty much covers
21 it.

22 BY MR. GIUFFRA:

1 Q After the 1985 fundraiser at Madison, did
2 you have any discussion with Governor Clinton about
3 it that you can recall?

4 A No.

5 MR. COHEN: When you're ready to go to
6 another topic, I just need a two-minute break.

7 MR. GIUFFRA: Okay.

8 BY MR. GIUFFRA:

9 Q Let me show you a document dated April 24,
10 1987, Jim Guy Tucker to Bill Clinton.

11 (Handing document to witness.)

12 MR. COHEN: Does it have a number on it by
13 any chance?

14 MR. GIUFFRA: Unfortunately not.

15 MR. COHEN: A numberless document.

16 THE WITNESS: Came over the transom.

17 (Pause.)

18 BY MR. GIUFFRA:

19 Q Do you recall seeing this document?

20 A No. But, you know, that's a very common
21 kind of letter.

22 Q Let me show you another document. This one

1 bears the Bates number DKSNI8010.

2 (Handing document to witness.)

3 BY MR. GIUFFRA:

4 Q This is a memo from Diane to Betsey
5 Wright, Bill Clinton, 8:00 o'clock, 13/87. Who is
6 Diane?

7 A She was Nancy Walker's assistant for a
8 time. Nancy Hernreich's assistant.

9 Q Do you recall seeing this particular memo?

10 A No.

11 Q If you could help us with the handwriting,
12 the handwriting to the left, the lower half of the
13 document.

14 A Let me give you the order in which it all
15 occurred.

16 Nancy got this memo first, and she wrote
17 on it, Sam working on this, said he'd call him.

18 Q Who was the "him"?

19 A Jim Guy.

20 And I guess he said he would also call
21 Representative Walker.

22 Q Let me ask you, you said he'd call him.

1 Now you're quite certain that the "him" refers to Jim
2 Guy Tucker?

3 A No. It could be Representative Walker
4 since he's working on it.

5 Q Why did you believe it was Jim Guy?

6 A Because I just looked at my note telling
7 Sam to call Jim Guy.

8 Q Then it says here, if you could read, this
9 is Bill Clinton's handwriting?

10 A This is B.S. I thought Sam called J. Guy,
11 did he? I thought PSC not regulating this project,
12 right? question mark.

13 Q Now you would have gotten this memo, is
14 that correct?

15 A It would have gone through me, yes.

16 Q Would this handwriting of Governor
17 Clinton's have been directed to you to take some
18 action?

19 A Yes, I would have distributed it back out
20 to the appropriate staff.

21 Q Do you remember anything about this memo?

22 A I don't. Bill Clinton had more paper than

1 any governor in the history of civilization, or so he
2 told me.

3 MR. COLE: Most of it we have now at this
4 Committee.

5 BY MR. GIUFFRA:

6 Q Let me show you now DKS18009.
7 (Handing document to witness.)

8 BY MR. GIUFFRA:

9 Q Is that your handwriting?

10 A No.

11 Q Do you know whose handwriting this is?

12 A I think it's Nancy's.

13 Q The entire document is Nancy's?

14 A I think this was a note probably that was
15 then stuck on that that said ask Sam again, be sure
16 Walker has been called. That's just internal control
17 mechanisms to make sure follow up happened for
18 citizens and legislators.

19 Q Let me show you another memo, May 18,
20 1987, Sam to the Governor. Excuse me, May 1987.
21 (Handing document to witness.)

22 BY MR. GIUFFRA:

1 Q Bates Number DKS18011 and 18012.
2 Do you recall seeing this memo?

3 A Not at the time. I only remember it now
4 from review from this.

5 Q Has your opportunity to review this memo
6 refreshed your recollection if you've ever seen it?

7 A I'm sure I did see it.

8 Q Do you recall anything more about this
9 memo?

10 A It was a report on the request we made for
11 Sam to call and get on top of the issue.

12 Q Do you recall anything more about what it
13 covered with regard to this particular piece of
14 legislation after you were given this memo?

15 A No.

16 Q Ms. Wright, have I exhausted your full
17 knowledge with regard to House bill 1780 which was
18 vetoed, and the subsequent bill which was enacted
19 into law, which would be Act 37 of 1987, these
20 relating to a bill to deregulate ratemaking for small
21 utilities?

22 A About ten times over.

1 MR. GIUFFRA: All right, do you want to
2 take a break?

3 (Discussion off the record.)

4 (Recess.)

5 (Discussion off the record.)

6 MR. GIUFFRA: Let's go on the record.

7 Prior to the break, I asked Ms. Wright
8 whether she had had any communications with either
9 Mr. Herbert Branscomb or Robert Hill regarding
10 fundraising activities of Governor Clinton's
11 campaigns prior to 1990.

12 Am I correct Ms. Wright was instructed by
13 her counsel not to answer those questions because
14 counsel advised Ms. Wright that this question was
15 outside the scope of Senate Resolution 120?

16 MR. COHEN: That's correct.

17 MR. GIUFFRA: As I indicated previously,
18 the procedure for the conduct of depositions is set
19 forth in Section 5(b)(7) of the Resolution, and I'll
20 just read this into the record.

21 MR. COHEN: You don't have to read that
22 section. I'm familiar with it.

1 MR. GIUFFRA: I just want to make sure
2 it's in here, just for the purpose.

3 If a witness objects to a question or
4 refuses to answer on the basis of relevance or
5 privilege, the Special Committee Staff will proceed
6 with the deposition, or may, at that time, or at a
7 subsequent time seek a ruling on the objection from
8 the Chairman. If the Chairman overrules the
9 objection, the Chairman may order and direct the
10 witness to answer the question. But the Special
11 Committee shall not issue procedures pertaining to
12 civil or criminal enforcement unless the witness
13 refuses to answer after having been ordered and
14 directed to answer.

15 During the break, I raised this issue with
16 Chairman D'Amato as to whether questions going to
17 communications between Ms. Wright and Messrs.
18 Branscomb and Hill regarding fundraising activities
19 of Governor Clinton's campaigns prior to 1990 were
20 relevant to matters specified in the Resolution, and
21 the Chairman has ruled. The Chairman is overruling
22 the objection of Ms. Wright to such questions

1 pursuant to his authority under Section 5(b)(7) of
2 Senate Resolution 120.

3 The Chairman believes that questions going
4 to such communications are relevant to Section
5 (1)(b)(3)(g) of the Resolution.

6 MR. COHEN: That's the lending activities
7 of the Perry County Bank in connection with the 1990
8 Arkansas gubernatorial campaign?

9 MR. GIUFFRA: Correct. He believes it's
10 relevant to Section 1(b)(3)(g) which in full reads:
11 to conduct an investigation and public hearings into
12 and study of all matters that have any tendency to
13 reveal the full facts about the lending activities of
14 the Perry County Bank, Perryville, Arkansas, in
15 connection with the 1990 Arkansas gubernatorial
16 election.

17 The grounds for his ruling are as follows:

18 One, he believes that such questions might
19 elucidate or demonstrate a prior course of dealing in
20 connection with the activities of Mr. Branscomb and
21 Mr. Hill as it relates to the 1990 Arkansas
22 gubernatorial election, and also note that Messrs.

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1 Branscomb and Hill have recently been indicted for
2 their activities in connection with the 1990 Arkansas
3 gubernatorial election.

4 And he also finds that such questions may
5 divulge and show a common scheme or plan. They also
6 may be relevant to show the nature of the
7 relationship between Messrs. Branscomb, Hill, and
8 Governor Clinton, and they also, such questions are
9 relevant to show knowledge, intent, and motive.

10 In view of this ruling, I am authorized to
11 advise you that the Chairman is ordering you, Ms.
12 Wright, and directing you to answer the question.

13 MR. COHEN: I'd like to take the
14 Chairman's direction to Ms. Wright under advisement
15 myself, since we've just obtained it, and suggest
16 that you go on to other areas. We'll get back to you
17 on our position with respect to the Chairman's order.

18 MR. GIUFFRA: Okay.

19 BY MR. GIUFFRA:

20 Q Ms. Wright, are you familiar with a real
21 estate project in Arkansas 1985-86 called Castle
22 Grande?

1 A I thought I answered that question.

2 Q I just looked at the deposition, and
3 there's no reference to Castle Grande.

4 MR. COLE: Yes there is, today.

5 THE WITNESS: Today.

6 MR. COHEN: It won't be in that other one.

7 I think Ms. Wright thought that Castle Grande and
8 Castle Sewer & Water project were the same thing.

9 BY MR. GIUFFRA:

10 Q It's slightly different. Castle Sewer &
11 Water is part of the project.

12 A The answer I gave is that there were just
13 these general things out there that McDougal
14 developed.

15 MR. COLE: I don' think that's the case,
16 Mr. Giuffra, but since neither you or I are
17 testifying today, I wouldn't characterize Castle
18 Sewer & Water as part of Castle Grande, but it's
19 irrelevant what you and I think since we're not the
20 witnesses.

21 BY MR. GIUFFRA:

22 Q Do you have any familiarity with this

1 particular real estate development other than what
2 you've testified to today with regard to Castle Sewer
3 & Water?

4 A Just in the way it keeps coming up in the
5 news accounts.

6 Q Did you have any discussions in either
7 1985 or 1986 with anyone about this Castle Grande
8 real estate development?

9 A No. We weren't involved in the McDougal
10 business ventures except in specific aspects where
11 he'd raised questions with state operations.

12 Q Did Governor Clinton ever mention Castle
13 Grande to you?

14 A I don't know.

15 Q Were you aware that the Rose Law Firm had
16 done some legal work in connection with the
17 acquisition of a property land south of Little Rock
18 from the Industrial Development Corporation of Little
19 Rock?

20 A I am from newspaper accounts.

21 Q Any knowledge at the time?

22 A No.

1 Q Were you aware the Rose Law Firm had done
2 some legal work in connection with the acquisition of
3 this property from the Industrial Development
4 Corporation of Little Rock?

5 MR. COLE: On behalf of Madison Guaranty,
6 is that your question?

7 THE WITNESS: In the '86 campaign, the
8 issue of Rose Law Firm's association with them I
9 think came up.

10 BY MR. GIUFFRA:

11 Q Is that with Madison or the Castle Grande
12 transaction?

13 A Madison.

14 And I don't know that I ever bothered
15 breaking down the specific aspects.

16 Q What do you recall about the Rose Law
17 Firm's relationship with Madison Guaranty coming --
18 Strike that.

19 In what context did the Rose Law Firm's
20 relationship with Madison come up during the 1986
21 gubernatorial election?

22 A I don't remember.

1 Q Do you recall anything about how the issue
2 was raised or what the issue was?

3 A I may be confusing it with issues that
4 were raised about Rose Law Firm and the state bond
5 business instead of Madison.

6 Q Okay. You don't recall any discussion of
7 any connection between Madison and the Rose Law Firm
8 coming up during the '86 campaign?

9 A I'm not sure.

10 Q Do you recall Madison and Rose Law Firm
11 coming up in any campaign prior the 1992 presidential
12 campaign?

13 A Not specifically, but it may have.

14 Q Do you know whether the Governor ever
15 spoke to Mr. McDougal about anything having to do
16 with Castle Grande or the IDC project?

17 A I don't know.

18 Q Did you know where the Castle Grande
19 project was?

20 A Vaguely.

21 Q Where? Where was it located to the best
22 of your understanding?

1 A Out there.

2 Q Was it located south of Little Rock?

3 A I didn't know directions.

4 Q Did you and the Governor ever attend any
5 meetings at the Castle Grande real estate project
6 with anyone?

7 A Is this the one where David Hale claims
8 that Bill went to a meeting with him?

9 Q That's not my question.

10 A Is this the one where Bob Nash discussed
11 bluejeans with McDougal?

12 Q It could be another visit.

13 My question is are you aware of any
14 meetings the Governor attended?

15 MR. COHEN: Other than --

16 THE WITNESS: I know that Bill dropped by
17 one of McDougal's real estate development offices, I
18 don't know the name of it, just to see it once, and
19 that Bob was with him. But I don't know if it was
20 Castle Grande. I think it was out there. I think
21 that was out there.

22 BY MR. GIUFFRA:

1 Q How did you come to learn that Mr. Nash
2 and Mr. Clinton visited one of Mr. McDougal's real
3 estate development projects?

4 A Bob told me.

5 Q He told you back in 1985 or '86?

6 A Yes.

7 Q What did Mr. Nash say to you about this
8 visit to one of Mr. McDougal's real estate projects?

9 A I'm sure he was in the process of
10 explaining to me why they were so late getting back
11 to the office. I made everybody answer to me on why
12 they were late.

13 Q Did there come a time, subsequent to this
14 visit of the Governor and Mr. Nash to one of Mr.
15 McDougal's real estate projects, that you discussed
16 that visit with anyone?

17 A No. It was just a drop by.

18 Q Did you ever discuss the fact that Mr.
19 Nash had visited Mr. McDougal's real estate project
20 with Mr. Lindsey?

21 A Yes, I think I told him, since all this
22 came up.

1 Q That's my question.

2 A Yes. I think I told Mr. Lindsey that I
3 remembered this, and I think I told Mr. Kendall that
4 I remembered this, and I think I told Mr. Nash I
5 remembered this.

6 Q Do you recall anything more about what you
7 might have told Mr. Nash, Mr. Kendall, or Mr. Lindsey
8 about this visit?

9 A Just that I did know that Bill went to
10 visit one of McDougal's offices one time and that Bob
11 Nash was with him, as they were coming back from some
12 other meeting, just to drop by.

13 Q Do you recall any discussion during '85 or
14 '86 of the Levi Strauss plant located on the IDC
15 Castle Grande property?

16 A Oh, sure. I don't remember a discussion
17 putting it on the Castle Grande property, but I was
18 very well aware of the Levi Strauss plant.

19 Q There was actually --

20 MR. COLE: I think we need to be careful
21 here, and I just don't want -- there's a plant in
22 Little Rock and a warehouse, and I just think you

1 should be very clear in your questions so the witness
2 knows whether you're talking about the Levi Strauss
3 manufacturing facility or a warehouse that was
4 leased.

5 BY MR. GIUFFRA:

6 Q Are you aware of the Levi Strauss
7 manufacturing facility?

8 A Sure.

9 Q That was located in Little Rock?

10 A Yes.

11 Q Are you aware of this Levi Strauss
12 warehouse?

13 A No.

14 Q What do you recall about the manufacturing
15 facility?

16 A It was jobs.

17 Q Do you recall anything else about it with
18 regard to this particular manufacturing facility?

19 A Yes. I mean not in any relationship to
20 any of this, just in terms of the economic
21 contribution of the plant, and trying to make sure
22 that all of the national officials of Levi Strauss

1 knew we were very happy they were there, employing
2 people.

3 I think they were a union plant, so I
4 think I had conversations with some of the unions
5 there.

6 Q Did you have any conversations with Mr.
7 Nash?

8 Did Mr. Nash indicate to you there was
9 discussion of Levi Strauss or bluejeans during the
10 meeting between Governor Clinton and Mr. McDougal?

11 A No. I learned that only from his
12 testimony.

13 Q Did there ever come a time when you
14 learned there were discussions involving opening of a
15 brewery at the Castle Grande real estate project?

16 A I know that -- no, I don't think I
17 remember it from then.

18 Q Let me show you a document. This is a
19 letter from Jim McDougal to you, dated December 12,
20 1984.

21 (Handing document to witness.)

22 BY MR. GIUFFRA:

1 Q Have you ever seen this letter before?

2 A I'm sure I did. I read all of my mail.

3 Q Do you have any recollection of this
4 letter?

5 A No.

6 Q Did counsel show you this letter prior to
7 your coming here today?

8 MR. COHEN: I object to that on privilege
9 grounds as to what I may have shown her and how I
10 prepared her.

11 Off the record for a minute.

12 (Discussion off the record.)

13 BY MR. GIUFFRA:

14 Q Do you recall receiving this letter?

15 A No, I don't. But again, this was a very
16 common kind of letter.

17 Q Attached to this letter is a proposed bill
18 which would allow beer manufacturers to sell beer at
19 retailing restaurants located on the premises of such
20 manufacturing facilities for consumption on the
21 premises.

22 Do you recall this proposed piece of

1 legislation?

2 A I remember a conversation about whether
3 beer manufacturers should have equal grounds with the
4 wineries.

5 Q The wineries were able to sell at the
6 manufacturing plant at retail?

7 A As I recall.

8 Q Do you recall ever discussing any
9 legislation to put beer manufacturers on an equal
10 footing with wine manufacturers?

11 A No. I mean I'm sure that's the only way
12 it came up is if somebody had put it into
13 legislation.

14 Q Did you ever have a discussion with
15 Governor Clinton about such legislation?

16 A No.

17 Q Jim McDougal?

18 A No.

19 Did this pass?

20 Q I'm just asking you whether you had any
21 communication with anyone? No recollection of any
22 communication?

82

1 A No.

2 Q Do you know a man named William Lyons?

3 A I know who he is.

4 Q Who is he?

5 A The guy who ran against Bill for the
6 Congress, resigned from the Bank Board to do it. He
7 had been a friend of McDougal's, and when McDougal
8 was on the staff in the first term and was in charge
9 of supervising appointees to the Bank Board.

10 Q Do you know whether Mr. McDougal
11 recommended his appointment to the Bank Board?

12 A I do. He was the staff person at that
13 time who made those recommendations, yes, to the Bank
14 Board.

15 Q Do you know whether Mr. McDougal
16 recommended that Mr. Lyons be asked to resign from
17 the Bank Board?

18 A I don't. All I know is that we received a
19 letter from Mr. Lyons saying that he and his son were
20 going into some kind of business and he was going to
21 resign. And shortly thereafter he filed for the
22 Congress to run against Bill in the Democratic

1 primary.

2 Q You don't recall anything more about Mr.
3 Lyons' resignation from the Bank Board?

4 A That's it.

5 Q By the way, did you ever speak to Mrs.
6 Clinton about the opening up of a tasting room at a
7 brewery located at Castle Grande?

8 A No.

9 (Laughter.)

10 THE WITNESS: I did once talk to her about
11 Maybelline mascara, which is sort of in the same
12 giggle category.

13 MR. COLE: That's not within the scope of
14 the Resolution.

15 (Laughter.)

16 BY MR. GIUFFRA:

17 Q You're not aware of any discussions
18 between the Governor and Mr. McDougal regarding
19 legislation that would permit a tasting room to be
20 located on the facilities of a beer manufacturer?

21 A No.

22 Q Were you aware that the Rose Law Firm

1 represented Jim McDougal and Madison Guaranty with
2 regard to the legal issue concerning whether a
3 tasting room for a brewery could be located in any
4 dry township?

5 A I don't think so.

6 Q Do you know of a McDougal real estate
7 project called Maple Creek Farms?

8 A Yes.

9 Q Did you ever speak to Mr. McDougal about
10 his real estate project?

11 A I don't think so.

12 What I know about it is that they did do
13 tv ads on that one, and his wife rode this horse.

14 Q Do you know a person by the name of Janice
15 Choate?

16 A Yes.

17 Q Who was Janice Choate?

18 A She was a member of the Governor's staff.

19 Q Do you recall ever setting up a meeting
20 between the Governor and Mr. McDougal and members of
21 the state health department regarding anything having
22 to do with Maple Creek Farms?

1 A I remember that there was a meeting about
2 a health department problem on one of his
3 developments. I never even tried to separate out
4 what all of his projects and businesses were.

5 Q What do you recall about that meeting, if
6 anything?

7 A He felt like the sanitarians, inspectors,
8 or whoever was working on it, were being
9 unreasonable. So we set him up at a meeting with the
10 director and the deputy director and Janice as was
11 the custom of the health department assigned new
12 inspectors or sanitarians or whoever was working on
13 it. And he still had to comply with the things they
14 said he had to comply with.

15 Q Do you recall anything about the meeting?

16 A No.

17 (Pause.)

18 Q You know Carol Rosco, correct?

19 A Yes.

20 Q Did she work for the Governor during the
21 1980s?

22 A Yes.

1 Q What was her job?

2 A Initially she was responsible for liaison
3 work to Health and Human Services and like agencies.

4 Q So she would have had some liaison
5 responsibilities with the health department?

6 A That's correct.

7 I eventually promoted her to a position of
8 overseeing about half of the staff liaisons and I
9 oversaw the other half.

10 Q And she now works for the White House?

11 A Correct.

12 Q What's her job?

13 A She is the domestic policy advisor to the
14 President.

15 Q Let me show you a memo dated January 18,
16 1986. It bears Bates number DKS13423. There's some
17 handwriting up in the right hand corner at the top.

18 Is that the Governor's handwriting?

19 A Yes.

20 Q It says, Rosco, this is McDougal memo --.
21 Do you recall ever seeing this memo?

22 (Pause.)

1 A No.

2 Q Any general recollection of the memo?

3 A No.

4 Q Let me show you another memo that bears
5 Bates number DKSNI4318, dated January 30, 1986, from
6 Ms. Choate to the Governor. Subject, McDougal.

7 (Handing document to witness.)

8 BY MR. GIUFFRA:

9 Q If you could just review that memo.

10 (Pause.)

11 Do you recall ever seeing this memo?

12 A Vaguely because of the tennis thing. She
13 didn't go through his coat pockets.

14 Q What more do you recall about it?

15 A That's it. You know, it was just a
16 complaint.

17 Q Do you recall any more about any
18 complaints that McDougal had regarding the health
19 department at any time?

20 A No. But let me say that all developers
21 have complaints about the health department. These
22 were daily occurrences. Nobody wanted to comply with

1 the standards, or they always wanted to find ways to
2 shortcut so it was just one more of those.

3 (Handing document to witness.)

4 BY MR. GIUFFRA:

5 Q I show you a memo from Carol Rosco to the
6 Governor, dated February 5. It bears Bates number
7 DKR -- I can read the rest of it -- or is it 617?

8 A This confidential staff is something that
9 the House produced.

10 Q Do you know a man named Tom Butler?

11 A Yes. He was deputy director of the health
12 department.

13 Q This doesn't refresh your recollection of
14 any issue involving Mr. McDougal and the health
15 department?

16 A Not beyond, I mean, it's just all backup
17 material to what I just told you I remembered. That
18 he had some problem with the sanitarians and the kind
19 of requirements they had. I think it was septic
20 tanks where there were always complaints about septic
21 tanks. There were very strict standards on them.

22 Q Do you ever recall discussing Mr.

1 McDougal's problems with regard to septic tanks with
2 the Governor?

3 A I remember that we had a meeting in the
4 Governor's office with Mr. McDougal and the director
5 of the health department, the deputy director of the
6 health department, and I think Janice probably sat in
7 that meeting.

8 Q Do you recall anything more about the
9 meeting?

10 A That as a consequence of the meeting, as
11 was the custom of the health department when there
12 were very loud complaints about the sanitarians that
13 had been assigned, they assigned new sanitarians who
14 took a look at it, and the ultimate result was the
15 same. That he had to comply with the health
16 department standards. And that the Governor told Tom
17 Butler, you do what you need to do, at the end of the
18 meeting after they left.

19 Q Did you ever have any communications with
20 Tom Butler about Mr. McDougal's problems other than
21 the conversations you testified to?

22 A No.

1 Q I'll show you another memo, it bears Bates
2 number DKSNI3421.

3 (Handing document to witness.)

4 (Pause.)

5 Do you recall seeing this memo?

6 A No, not specifically.

7 Q From Ms. Choate to the Governor?

8 A But it's the common follow-up. It would
9 have been a routine follow-up from specific
10 complaints about specific state employees.

11 Q The memo says that McDougal told the
12 health department employees that the Governor was his
13 good friend.

14 A Another common Arkansas phrase.

15 Q Would you describe, under an ordinary
16 English definition, would you describe the Governor
17 as a good friend of Mr. McDougal's?

18 A Mr. McDougal had been on his staff. Yes,
19 they had known each other for years.

20 Q The letter goes on to say, quote "I am
21 reassured that they have held their tongue and
22 continued to make an effort to work cooperatively

1 with McDougal et al." close quote.

2 Do you know what Ms. Choate might have
3 meant by that?

4 A It was very common for people to threaten
5 state employees with their relationship with the
6 Governor or with God, and state employees just had to
7 bite their tongues and take it. We didn't interfere
8 with what they had to do.

9 We always knew that they would probably
10 come to us. I mean, my favorite was the man who once
11 had an ice cream cone next to the Governor at a
12 county fair, and they were good friends because the
13 Governor let me know if I can ever do anything for
14 you.

15 Q Why don't you keep the memo in front of
16 you.

17 Do you recall any discussion at any time,
18 when you were chief of staff to the Governor, about
19 the fact that other employees in the office had to
20 take steps to address issues raised by Mr. McDougal?

21 MR. COHEN: I'm sorry, could you rephrase
22 that.

1 MR. GIUFFRA: Let me rephrase the
2 question.

3 BY MR. GIUFFRA:

4 Q Do you recall any discussions at any time,
5 while you were chief of staff, of what the
6 consequences might be for the Governor if members of
7 his staff were not courteous to Mr. McDougal?

8 A No more than any citizen. I mean, we
9 weren't supposed to be discourteous to anybody.

10 Q Was there any discussion of the fact that
11 employees of state agencies should make an effort to
12 be courteous to Mr. McDougal at any time?

13 A No more than anybody. They were supposed
14 to be courteous to everybody.

15 Q Do you know whether Ms. Choate was aware
16 of the fact that Governor Clinton and Mr. McDougal
17 were business partners in connection with the
18 Whitewater Development Corporation?

19 A I doubt it.

20 Q Do you know who else in the Governor's
21 office might have been aware of the fact besides
22 yourself of the Whitewater investment?

1 A I don't think anybody knew what it was.
2 It was just some real estate venture that wasn't
3 going anywhere. That is very routine staff work. It
4 has nothing to do with Jim McDougal. I'm
5 volunteering. We did that weekly for people who
6 didn't want to meet the health department standards.

7 MR. COLE: It may not be clear on the
8 typed record here what the that is that you're
9 referring to.

10 He was just asking you about Whitewater
11 Development Corporation.

12 MR. GIUFFRA: You're referring to the
13 document Bates stamped number DKS13421.

14 BY MR. GIUFFRA:

15 Q My question was, besides yourself, who
16 else in the Governor's office was aware?

17 A Anybody who read the newspaper articles
18 closely that wrote about the financial disclosures we
19 filed every January.

20 Q So the Whitewater investment, to the best
21 of your recollection, was reported in the newspapers
22 in Arkansas during the 1980s?

94

1 A Oh, absolutely.

2 Q In fact, Mr. McDougal was also a partner
3 of Mr. Clinton in connection with Whitewater. Was
4 that also reported?

5 A I don't know.

6 Q Do you know whether any other members of
7 the Governor's office staff were aware of the fact
8 that Governor Clinton and Jim McDougal were business
9 partners?

10 A They probably were. It wasn't a secret.
11 If asked what Whitewater, he'd say oh, that's a land
12 deal that we're in with McDougal.

13 Q Do you recall him discussing the fact that
14 he had this business relationship with Mr. McDougal
15 with any member of the staff?

16 A Me.

17 Q Anyone else?

18 A I don't remember anybody else.

19 Q Do you know whether Ms. Rosco was aware of
20 this business relationship between the Governor and
21 Mr. McDougal?

22 A I don't know. I have no idea whether she

1 was aware. It was absolutely irrelevant that they
2 had a business relationship.

3 Jim McDougal is a former member of Bill
4 Clinton's staff.

5 Q I'm not asking for a speech. I'm asking --

6
7 A And that's all the relationship responded
8 to.

9 Q All I'm asking though is do you recall
10 whether any other members of the staff were aware?

11 A I don't. I don't know.

12 Q You never discussed it?

13 A The dominant identity with Mr. McDougal by
14 members of the Governor's staff who were aware of its
15 existence was that he had been a member of Bill
16 Clinton's first gubernatorial staff.

17 (Pause.)

18 BY MR. GIUFFRA:

19 Q I show you another document. This bears
20 Bates number DKSNI3381 and 82.

21 Let me direct your attention --

22 (Handing document to witness.)

1 BY MR. GIUFFRA:

2 Q First of all, do you know whose
3 handwriting this is?

4 A I believe it's Ms. Rosco's handwriting.

5 Q Would she have sent this around to people,
6 as far as you know?

7 A I think it's for her own --

8 Q Let's look at the bottom. There's a
9 reference that looks like JC-BW called Jim McDougal
10 and said I failed to get names down.

11 Then below that, it says, 10 JC Board of
12 Health.

13 Do you know this reference where it says
14 "BW called Jim McDougal and said I failed to get
15 names down" refers to?

16 A No. I can only guess.

17 Q What do you think it relates to?

18 MR. COHEN: Guessing is probably not
19 particularly helpful. What's your best guess?

20 MR. COLE: It's not an estimate so it must
21 be a guess.

22 BY MR. GIUFFRA:

- 1 Q What do you think this refers to?
2 A Is this date 1/23/ do you think?
3 Q Yes.
4 A And what was Janice's date about the memo
5 on the pocket?
6 (Pause.)
7 Q That was dated January 3rd.
8 A I don't know. Maybe it was just a way of
9 saying that --
10 Q It related to the names of the
11 sanitarians?
12 A Just telling them I forgot who they were.
13 I didn't get the names down.
14 Q Who would JC be?
15 A Janice Choate.
16 Q BW. Do you recall calling Jim McDougal
17 yourself?
18 A No.
19 Q Why would there be a reference to you in
20 this note?
21 MR. COHEN: You can ask Ms. Choate that.
22 You've already asked her what she thinks of it or

- 1 knows about it. She's told you she doesn't know
2 anything.
3 BY MR. GIUFFRA:
4 Q Let's turn to the next page. This is 121.
5 It bears Bates number DKS13382. And there's another
6 notation. BW/Jim McDougal's probs.
7 Any recollection what that might be
8 related to?
9 A Tell me again where it is.
10 Q Down on the bottom, the 6th entry from the
11 bottom.
12 A Let me tell you what I think this is. I
13 don't think it's a to-do list. I think she was
14 taking her voice mails off the phone. And that the
15 first initials before the colon were always who the
16 voice mail was from. And those were the notes that
17 she made.
18 Q So this would be a voice mail from you?
19 A I think that's what that says.
20 Q Do you recall discussing Jim McDougal's
21 problems regarding any subject with Ms. Rosco?
22 A Not specifically.

1 Q Generally?

2 MR. COHEN: It's his turn to say generally
3 now.

4 THE WITNESS: Mr. Giuffra, Mr. McDougal
5 was a problem. He always had problems, and they were
6 never important enough to me to reduce to permanent
7 memory cells in my brain.

8 BY MR. GIUFFRA:

9 Q But do you recall speaking with Mr.
10 McDougal about his problems on occasion?

11 A Not specifically.

12 Q Generally?

13 A I probably did.

14 Q Do you recall what the frequency would
15 have been between 1985 and 1986 with which you would
16 have spoken to Mr. McDougal about his problems?

17 A No, I don't.

18 MR. COHEN: She told you two or three
19 times she thought the entire period the last time.

20 THE WITNESS: But I was aware of generally
21 when he spoke to anybody else on the staff.

22 MR. GIUFFRA: We have a document that

100

1 indicates two possible communications between Ms.
2 Wright and Mr. McDougal on the 23rd, so I'm just
3 trying to test whether or not you have any other
4 recollection of communications with Mr. McDougal.

5 MR. COHEN: Okay.

6 BY MR. GIUFFRA:

7 Q Do you want to up the estimate of the
8 number of communications you might have had with Mr.
9 McDougal from two to three to four or five?

10 What do you think it was?

11 A It's a handful of communications with him.
12 We weren't pen pals or anything.

13 Q Some place around five you would estimate?

14 A I have no idea.

15 Q Can you give us an estimate?

16 A Just a few. I didn't talk to him very
17 often.

18 Q I'll show you another document that bears
19 Bates stamp DKSN13404, a memo from Ms. Choate to
20 Governor, 3/5/86. Subject, follow-up to McDougal.
21 Call for department meeting with you.

22 (Handing document to witness.)

1 MR. COHEN: The "you" in that is Bill
2 Clinton?

3 MR. GIUFFRA: Probably so.

4 (Pause.)

5 BY MR. GIUFFRA:

6 Q Any recollection of this memo?

7 A She didn't get peeved very often and I
8 rarely sent peeve memos on into the Governor, but I
9 obviously did that one, which he wrote, thanks.

10 Q Now do you know anything about any
11 discussions between the Governor's office and Mr.
12 Butler with regards to the removal of certain
13 sanitarians from their position?

14 A The custom was that when there were really
15 bad complaints about a couple, that they would
16 reassign them and put new sanitarians on them.

17 Q On a real estate project?

18 MR. COHEN: You didn't mean that they were
19 fired, you meant sort of removed from that program.

20 THE WITNESS: Reassigned, that they put
21 new sanitarians on it.

22 BY MR. GIUFFRA:

1 Q So that was a normal practice that if a
2 developer complained about --

3 A If it was a really vehement complaint,
4 that there seemed no way to resolve and calm down,
5 then the practice was to put a different sanitarian
6 on it and see if they had a different opinion.

7 And as I, I've said this now twice to you
8 today, that it still came out the same way.

9 Q Now would this be a courtesy that would be
10 accorded to any real estate developer in Arkansas
11 that complains to the Governor's office?

12 A Not necessarily if they complained to the
13 Governor's office. If they were just really
14 vehemently felt very strongly that they were being
15 mistreated or wronged, then it was like calling in
16 people for a second opinion.

17 MR. COLE: Was this a policy of the
18 Governor's office or the health department?

19 THE WITNESS: I believe it was a health
20 department policy.

21 BY MR. GIUFFRA:

22 Q Would the Governor normally meet with real

1 estate developers and the health department with
2 regard to problems at real estate developments?

3 A Generally we tried. If they went to the
4 Governor's office, we tried to handle them at the
5 staff level.

6 Because Jim had been a former member of
7 the staff, he was accorded a meeting with the
8 Governor. Jim was not an easy personality to deal
9 with. I don't think any of us ever overlooked that
10 fact.

11 Q Do you know about how many meetings the
12 Governor might have had with Jim McDougal during the
13 1980s in your office that you were present at?

14 MR. COHEN: She catalogued these for you
15 in the first third of her deposition the other day.

16 THE WITNESS: Not that I know of.

17 MR. GIUFFRA: No problem. We'll just go
18 on.

19 BY MR. GIUFFRA:

20 Q Do you recall any discussions in the
21 period March 1986 about the need to lay off any
22 sanitarians?

1 A For budget purposes or related to this or
2 what?

3 Q Either.

4 A I don't. I'd have to have more
5 information. That memo we were just talking about,
6 is that what you mean?

7 Q There's a reference to laying off people
8 on the last page of the memo.

9 A Yes. The budget cuts. We had a revenue
10 shortfall.

11 Q So you had to lay off sanitarians,
12 correct?

13 A I'm sure that they were part of it.

14 Q Do you recall, do you know whether the
15 sanitarians who had been involved in supervising or
16 regulating Mr. McDougal's Maple Creek Project were
17 among those that were laid off?

18 (Pause.)

19 A Okay, the meeting with McDougal and the
20 health department people was on March 4th, and I
21 think the budget cuts had already taken place. I
22 mean, this also makes it sound like the budget cuts

1 had already happened.

2 Q So it would be your testimony that these
3 budget cuts predated the meeting of March 4, 1986?

4 MR. COLE: Mr. Giuffra, the Committee has
5 already deposed the sanitarians at issue and knows
6 the history of this. Is it really helpful to try to
7 probe this with Ms. Wright.

8 MR. GIUFFRA: I'm just asking Ms. Wright
9 what she recalls.

10 THE WITNESS: I don't remember any layoffs
11 in connection with McDougal's complaints.

12 BY MR. GIUFFRA:

13 Q No connection between McDougal's complaint
14 and any layoffs in the health department?

15 A And they didn't show those sanitarians on
16 C-SPAN so I didn't see them.

17 MR. COLE: We deposed them. There haven't
18 been any hearings. I didn't mean to mislead you.
19 Private depositions like the one we're having now,
20 which neither Mr. Giuffra nor Mr. Brenner attended so
21 they may not be as familiar with that testimony as I
22 am, although I'm sure that they reviewed it in

1 preparation for the deposition today.

2 BY MR. GIUFFRA:

3 Q I'll show you another document that bears
4 the number House Subfile 4, a letter from Tom Butler
5 to Jim McDougal, on the Arkansas Department of Health
6 stationery.

7 Do you recall seeing this letter on any
8 occasion?

9 (Pause.)

10 A No. I may have.

11 (Pause.)

12 Q Do you recall any communications involving
13 Mr. McDougal and either the Governor, yourself, or
14 anyone in the Governor's office regarding
15 appointments to the State S&L Board?

16 A From documents I've seen recently, I don't
17 know that I recall them specifically at the time,
18 yes, I do, vaguely.

19 Q Do you have a recollection of Mr. McDougal
20 making recommendations to the Governor with regard to
21 the State S&L Board?

22 A Yes.

1 Q Do you recall whether anyone else made
2 recommendations to the Governor with regard to the
3 State S&L Board?

4 A Are you sure we didn't already talk about
5 this?

6 Q I don't think we did.

7 MR. COHEN: Actually, we did, but not in
8 extensive detail.

9 Go ahead. But may I recommend assembling
10 all the neat little letters and thank you letters and
11 stuff like that so we can do this.

12 MR. GIUFFRA: We'll do it as expeditiously
13 as possible.

14 MR. COHEN: Because as I explained to you, --
15

16 MR. GIUFFRA: I know. I'm trying to go as
17 fast as I can.

18 BY MR. GIUFFRA:

19 Q Do you recall any communications between
20 you and the Governor?

21 A We generally sought recommendations from
22 the Savings & Loan Association. I generally would

108

1 call heads of state-chartered S&Ls. It just
2 depended. There wasn't much demand for that
3 position.

4 Q Do you recall whether anyone else
5 specifically would have made a recommendation?

6 A I don't remember about that specific
7 position.

8 Q Do you recall whether Mr. McDougal make
9 recommendations with regard to the State Savings &
10 Loan Board?

11 A I do remember he did at least once.

12 Q What's the occasion in which he would have
13 made a recommendation?

14 A Some year when one came up.

15 Q Do you recall who he recommended?

16 A No. Somebody who worked for him, I think.

17 Q John Latham?

18 A Yes.

19 (Handing document to witness.)

20 BY MR. GIUFFRA:

21 Q Let me show you a document that bears

22 Bates number DKS25953, a memo from Cathy, it looks

1 like to the Governor and MS.

2 Who was MS?

3 A Maurice Smith.

4 Q He would have been, what was his position?

5 A He was executive secretary for like the
6 first 18 months from January '83 to like July of '84.

7 Q Did he have a position after that in the
8 Governor's office?

9 A No. He did help us on legislative staff
10 during the sessions.

11 Q Do you know whether he would have had a
12 role in the Governor's office in February '85?

13 A Who, Maurice?

14 Q Yes.

15 A I don't think this was in '85, do you?

16 Q Do you know Cathy?

17 A Yes.

18 Q Who is Cathy?

19 A She was over appointments to boards and
20 commissions, but I think she was gone by '85.

21 Q What was her last name?

22 A Gibson.

110

1 Q You think she was gone, so your best
2 estimate is that this would probably have been
3 written in '84?

4 A '83 or '84.

5 Q Is that the Governor's handwriting across
6 the top in the darker pen?

7 A Yes.

8 Q Could you just read the handwriting?

9 A Let's ask Jim McDougal for rec, maybe fill
10 a vacancy in county we need.

11 Q And there's a reference to Mr. Latham.

12 Any other recollection of anything having
13 to do with Mr. Latham's appointment to the State S&L
14 Board?

15 A No. But it looks like she called Jim and
16 he recommended John Latham.

17 Q Let me show you another document which
18 bears Bates number House number 10235, a February 7,
19 1985 memo from Jim McDougal to Governor Clinton.

20 (Handing document to witness.)

21 BY MR. GIUFFRA:

22 Q This would seem to indicate that this

1 handwritten memo was written in '85.

2 A Yes, it would.

3 Q Do you recall seeing this memo?

4 A Yes, vaguely.

5 Q What do you recall about it?

6 A Just seeing this memo.

7 Q Ever have any discussions with Governor

8 Clinton about the appointment of anyone recommended

9 by Mr. McDougal to the State S&L Board?

10 A No.

11 Generally, you know, this was a very
12 powerless board which had little to do. There were,
13 as this indicates, certain ones that had to be filled
14 from people, executives within the S&Ls. We tried to
15 be sensitive to state-chartered S&Ls because they
16 were obviously very different from Federal chartered
17 ones. This was a very common thing, and usually we
18 did them only by memo. We rarely, I don't recall a
19 time when they came up in a meeting.

20 MR. COLE: Well, how many state chartered
21 S&Ls were there approximately?

22 THE WITNESS: I don't recall, but just a

1 handful.

2 (Pause.)

3 BY MR. GIUFFRA:

4 Q What was your understanding of the nature
5 of the relationship between Dan Lasater and Governor
6 Clinton?

7 A Friendly. Lasater had been a supporter.

8 Q Did you ever have any discussions with Mr.
9 Lasater about a fundraiser that Mr. Lasater organized
10 for the Governor at any point?

11 MR. COHEN: Check your prior testimony
12 after the first break. Lasater friend, acquaintance
13 lined up airplane, visited home, fundraiser for
14 political. Roger Clinton worked for Dan Lasater
15 briefly. Are you aware of that fact? Yes. They had
16 been before I arrived at Arkansas.

17 Would you like me to go on reading my
18 notes, or would you check the testimony so you could
19 start from where you left off?

20 Yes, he visited the Governor's office, or
21 she doesn't remember. And he may have visited. Was
22 invited to the mansion but doesn't remember if he

1 went.

2 And you pick up somewhere after that
3 point.

4 MR. COLE: Probably around page 104 to
5 110.

6 MR. GIUFFRA: I see.

7 MR. COLE: Good notes, Al.

8 MR. GIUFFRA: What was the last question?

9 MR. COLE: The last question was, the
10 visits to the Governor's office.

11 MR. GIUFFRA: No, that wasn't the last
12 question.

13 MR. COHEN: Let me flip to the next page.
14 I'm sorry, my notes fell off there. Oh, I'm sorry,
15 then we go to the Chief of Staff Governor contacted
16 Dan Lasater re admin state police bond offerings.

17 We go all the way through the bond
18 offerings.

19 MR. GIUFFRA: I'm just asking Ms. Wright
20 did she ever help plan a fundraiser that was
21 organized by Dan Lasater.

22 THE WITNESS: I don't believe I was

1 involved in the organizing or planning of it. I was
2 aware of it.

3 BY MR. GIUFFRA:

4 Q Do you know what campaign that fundraiser
5 was for?

6 A '84 maybe.

7 Q Do you recall how much money was raised at
8 the fundraiser?

9 A No.

10 Q You wouldn't have had any communication
11 with Mr. Lasater in connection with that fundraiser?

12 A I don't believe I did directly. I think I
13 oversaw the staff work on it, of getting it
14 scheduled, and then seeing to it that thank you
15 letters went out.

16 Q Do you recall approximately how many
17 people might have attended the fundraiser?

18 A I have no idea. I don't believe I
19 attended.

20 Q Do you recall where it was held?

21 A I think it was held at either his home or
22 his office.

1 Q Did you or anyone on your staff --

2 Strike that.

3 Did you ever speak to Dan Lasater about
4 appointments to the Board of the Arkansas Development
5 Finance Authority?

6 A I don't remember if I did. I know that we
7 had communications with him.

8 Q What do you recall about those
9 communications with Lasater regarding appointments to
10 the ADFA Board?

11 A Well, thanks to Mr. Yost of the AP, I'm
12 aware of who he recommended, most of whom were people
13 that everybody was recommending. And that they were
14 people who were on the Housing Development Board and
15 who then got moved to the new ADFA.

16 Q Do you recall any communications involving
17 Mr. Lasater and anyone on your staff or the Governor
18 regarding those appointments?

19 A Do I remember it from the time? No. But
20 it seems like we had a deluge of recommendations.

21 Q Do you recall any specific recommendations
22 from Mr. Lasater?

1 A I do from my conversations with Mr. Yost,
2 when he was reading me the names.

3 Q Do you recall discussing with anyone the
4 fact that Mr. Lasater had made recommendations to the
5 ADFA Board?

6 A No, because almost everybody did.

7 Q So you don't recall any discussion between
8 yourself and the Governor with regard to
9 recommendations by Mr. Lasater to the ADFA Board?

10 A What time period are you discussing? Was
11 this when it first was created?

12 Q On any occasion.

13 A Or later?

14 Q On any occasion?

15 A I might have later had a conversation with
16 Patsy Thomasson about someone that she or Dan or
17 somebody both wanted. I don't remember.

18 Q Do you recall the name of the person Ms.
19 Thomasson might have asked to be appointed to the
20 ADFA Board?

21 A I think it was Bell, and I don't think we
22 appointed him.

1 Q Do you recall anything more about your
2 conversation with Ms. Thomasson about the possible
3 appointment of?

4 A Mr. Bell?

5 Q Mr. Bell to the Board?

6 A No. I don't believe we ever did appoint
7 him, though. When ADFA was created almost all
8 investment bank companies made recommendations.
9 Almost everybody recommended that the people who had
10 been on the Housing Development Board be now
11 appointed to ADFA.

12 Dan Lasater didn't stick out because he
13 didn't ask for anything different from what everybody
14 asked for.

15 Q Do you recall anything about the
16 appointment of Patsy Thomasson to the Arkansas State
17 Highway Commission?

18 A No, because that happened when Pryor was
19 Governor. Pryor appointed her.

20 MR. COLE: Is that included in the
21 Resolution?

22 (Pause.)

1 MR. BEN-VENISTE: Excuse me. Did you hear
2 Lance Cole's question?

3 MR. COLE: I asked if Ms. Thomasson's
4 appointment to the Highway Commission by Governor
5 Pryor is within the scope of our Resolution.

6 I suppose the laugh means no?

7 MR. BEN-VENISTE: Can I ask a question
8 since we're into the scope of the Resolution?

9 MR. GIUFFRA: Let's go off the record.

10 MR. BEN-VENISTE: No, I'd like it on the
11 record.

12 That has to do with the nature of the
13 review which has been obtained here today in
14 connection with Ms. Wright's knowledge of campaign
15 contributions prior to 1990.

16 MR. GIUFFRA: That wasn't what it was
17 about. It was about communications that Ms. Wright
18 might have had with Branscomb or Hill regarding
19 campaign fundraising prior to the 1990 campaign.

20 MR. BEN-VENISTE: Is that with respect to
21 any Clinton campaign or anybody's campaign?

22 MR. GIUFFRA: Clinton campaigns.

1 MR. BEN-VENISTE: Was that made clear?

2 MR. GIUFFRA: Yes.

3 MR. BEN-VENISTE: So any Clinton campaign.
4 Was that the campaign for Governor or for any office?

5 MR. GIUFFRA: I'd have to go back to the
6 record. I'm not going to be cross examined. The
7 record will speak for itself.

8 MR. BEN-VENISTE: I'd like to know what
9 the nature of the ruling sought was?

10 MR. GIUFFRA: We'll have the Court
11 Reporter go back to that section and you can read it.

12 MR. COLE: I think what Mr. Ben-Veniste is
13 asking is a different question. Since you didn't
14 take the Court Reporter with you when you consulted
15 with the Chairman, and I wasn't with you when you
16 consulted with the Chairman.

17 I understood his question to be, and he
18 certainly doesn't need me to interpret it for him,
19 what the ruling was from the Chairman, which won't be
20 in the Court Reporter's record.

21 MR. GIUFFRA: Communications between
22 Betsey Wright, Branscomb and Hill regarding

120

1 fundraising activities of Governor Clinton's
2 campaigns prior to 1990.

3 MR. BEN-VENISTE: So any gubernatorial
4 campaign prior to 1990?

5 MR. GIUFFRA: Correct.

6 MR. BEN-VENISTE: Is the subject of this
7 ruling the first gubernatorial campaign was what
8 year? 1980?

9 MR. COLE: '78.

10 THE WITNESS: Attorney General was '76.
11 Governor '78. I didn't manage any until '82.

12 MR. BEN-VENISTE: So you're asking about
13 '78 forward to 1980, a 12-year period into 1990, a
14 12-year period? Is that correct?

15 MR. GIUFFRA: The ruling speaks for
16 itself.

17 MR. BEN-VENISTE: You don't have to be
18 embarrassed to say if that's correct. I'd just like
19 to get a clarification.

20 MR. GIUFFRA: Let's go off the record.

21 (Discussion off the record.)

22 BY MR. GIUFFRA:

1 Q What is the role of the State Highway
2 Commission as far as you know?

3 A To supervise the construction and
4 maintenance of state highways.

5 Q In terms of appointments, is the State
6 Highway Commission one of the more sought after
7 appointments?

8 A Yes.

9 Q Why was that?

10 A Because it was a very powerful board. It
11 was constitutionally autonomous. If you were doing a
12 chart of executive, legislative, and judicial, the
13 State Highway Department and the Game and Fish
14 Commission, the State Highway Commission and the Game
15 and Fish Commission would be equal to the Governor on
16 that chart.

17 MR. BEN-VENISTE: Let me ask a question.

18 Do you intend to go into the State Highway
19 Commission appointments and the Fish and Game
20 Commission?

21 MR. GIUFFRA: Mr. Ben-Veniste, you just
22 arrived five minutes ago. I'm trying to conduct a

1 deposition. I'm asking some basic background
2 questions of a person who was the Chief of Staff of
3 the Governor of the State of Arkansas during the
4 1980s about the Arkansas State Highway Commission.

5 MR. BEN-VENISTE: I simply asked you
6 whether it's your intention to get into the State
7 Highway Commission appointments or the Fish and Game
8 appointments or any agency that is not include in our
9 Resolution here.

10 And this witness has been here for a day
11 and a half now I understand, and my question has to
12 do with the scope of your intentions.

13 MR. GIUFFRA: My intentions are to ask her
14 some basic preliminary questions about the powers and
15 authorities of the State Highway Commission, and the
16 desirability of such appointments.

17 MR. BEN-VENISTE: On what theory relating
18 to the scope of our Resolution? It may be very
19 interesting to you and historically I'm sure it would
20 provide something interesting to people who are
21 studying this Commission.

22 MR. GIUFFRA: I don't want to waste time

1 since I know Mr. Cohen has to leave. Such questions
2 are relevant to Section 1(b)(3)(g) of the Resolution
3 which relates to the Perry County Bank, as I'm sure
4 you're aware from reading the indictment of Messrs.
5 Branscomb and Hill. There are allegations of
6 possible quid pro quos involving campaign
7 contributions and the appointment of Mr. Branscomb to
8 that board.

9 MR. BEN-VENISTE: That's not what the
10 Resolution says with respect to the Perry County
11 Bank.

12 MR. GIUFFRA: It sounds like you and I may
13 have a point of difference on that.

14 MR. BEN-VENISTE: It talks about the
15 lending activities of the Perry County Bank in
16 Perryville, Arkansas, in connection with the 1990
17 Arkansas gubernatorial election.

18 Are we talking about the lending
19 activities of the Perry County Bank?

20 MR. GIUFFRA: Mr. Ben-Veniste, it's
21 important that you read the preamble to the
22 Resolution which states that the Committee is to

1 conduct an investigation, a public hearing into, and
2 study of all matters that have any tendency to reveal
3 the full facts about -- and it goes into the Perry
4 County Bank.

5 You may not like the fact that the
6 preamble is in the Resolution, but that was approved
7 by the Senate by a vote of 96 to 3.

8 We ought to just get the deposition over
9 with because we're spending more time debating here,
10 and I'm sure Mr. Cole is quite competent to defend
11 the deposition.

12 MR. COLE: Thank you, Mr. Giuffra.

13 MR. GIUFFRA: If you want to come in and
14 provide your two cents, you're free to do so.

15 MR. BEN-VENISTE: Thank you. I'm going to
16 do so, since you indicated that I'm free to do so.

17 That is that you're misreading the scope
18 of this Resolution. If you're going to delve into
19 these other agencies now, and go off on continued
20 fishing expeditions, that is contrary to the import
21 of Senate Resolution 120, and certainly at this stage
22 of the game, with this witness having been here a day

1 and a half is most inappropriate.

2 My suggestion is you get another ruling if
3 you intend to go into this area.

4 MR. GIUFFRA: I don't think it's necessary
5 to get a ruling from the Chairman with regard to
6 basic background questions on the Arkansas State
7 Highway Commission.

8 MR. BEN-VENISTE: Then look it up. Get an
9 encyclopedia and educate yourself if they're so
10 basic.

11 MR. COHEN: What are your other questions,
12 if any, in this area?

13 MR. GIUFFRA: Before I was interrupted, I
14 was almost at the end of the line of questions that I
15 had for Ms. Wright about the State Highway
16 Commission.

17 So if we could just get these questions
18 out.

19 Why don't you read the last question and
20 answer back before Mr. Ben-Veniste objected?

21 MR. COHEN: I can tell you what it was.

22 You just asked her how the Highway

1 Department, where it stood in the great scheme, and
2 she told you about the Fish and Game Commission.

3 MR. GIUFFRA: The question previous to
4 that. I can keep this on the record.

5 Why were appointments to the State Highway
6 Commission sought after?

7 MR. COHEN: She answered.

8 MR. GIUFFRA: She was attempting to answer
9 that question. I don't think she's fully --

10 MR. COHEN: Did you finish your answer on
11 that as to the autonomy of it?

12 BY MR. GIUFFRA:

13 Q Did the State Highway Commission have a
14 certain authority with regard to the approval of
15 certain contracts?

16 MR. COHEN: I'll let her answer that, but
17 that's her last background question.

18 Go ahead, Ms. Wright.

19 THE WITNESS: Yes. And the other reason
20 of course that it was sought after is that it was a
21 ten-year term.

22 BY MR. GIUFFRA:

1 Q Was it also sought after because the State
2 Highway Commission had the authority to approve
3 certain contracts?

4 MR. BEN-VENISTE: She just answered you,
5 yes.

6 MR. GIUFFRA: It was ambiguous.

7 MR. BEN-VENISTE: Yes, it was ambiguous?

8 THE WITNESS: Yes.

9 BY MR. GIUFFRA:

10 Q What kind of authority did the State
11 Highway Commission have with regard to the approval
12 of contracts? What contracts did they approve?

13 MR. BEN-VENISTE: I'm going to object to
14 this. It's completely outside the scope of this
15 Resolution.

16 MR. GIUFFRA: Let's stop wasting time.

17 MR. COHEN: It doesn't matter because
18 she's already told you that it's involved in the
19 construction and maintenance of highways, so let's
20 keep going.

21 BY MR. GIUFFRA:

22 Q Is that correct, Ms. Wright? Those are

1 the kind of contracts approved by the State Highway
2 Commission?

3 A Yes.

4 (Pause.)

5 MR. GIUFFRA: Just so the record is clear,
6 it's important that Mr. Ben-Veniste's statements with
7 regard to the scope of the Resolution and the
8 Chairman's ruling is not any sort of a ruling with
9 regard to any communications that Ms. Wright had with
10 anyone about campaign fundraising activities of
11 Governor Clinton during the 1980s, but only with
12 regard to communications that Ms. Wright had with
13 Messrs. Branscomb and Hill, two individuals who have
14 been indicted recently by the Independent Counsel.

15 MR. COHEN: We all agree they were
16 indicted last week long after this Resolution was
17 enacted.

18 MR. BEN-VENISTE: It's the recent
19 indictment exception to the terms of the Resolution,
20 I presume?

21 MR. GIUFFRA: I think it falls squarely
22 within the terms of the Resolution but that's another

1 issue.

2 (Pause.)

3 (Recess.)

4 BY MR. GIUFFRA:

5 Q Did Mr. McDougal ever contact you about
6 the proposal that he had to issue preferred stock, of
7 Madison to issue preferred stock?

8 A No.

9 Q Did Ms. Bassett Schaffer ever discuss with
10 you, Mr. McDougal's proposal to issue preferred
11 stock?

12 A No.

13 Q Did Governor Clinton ever discuss with you
14 the proposal to issue preferred stock?

15 A No.

16 (Pause.)

17 Q This is document DKSNI1294, a letter from
18 Mrs. Clinton to Jim McDougal.

19 (Handing document to witness.)

20 BY MR. GIUFFRA:

21 Q Do you recall ever seeing this letter?

22 MR. COHEN: We went over this letter last

130

1 time.

2 BY MR. GIUFFRA:

3 Q Just to be sure, do you recall seeing
4 this?

5 A Yes.

6 Q Is it your handwriting?

7 A No. It came from the mail room to me. I
8 gave it to the Governor, and he said to put it in his
9 personal file.

10 Q Thank you.

11 MR. COHEN: That's precisely what she said
12 last time.

13 BY MR. GIUFFRA:

14 Q Do you know a man by the name of Norton
15 Gaines?

16 A Gaines Norton.

17 Q Gaines Norton, yes.

18 A I don't know him. Oh, I do too.

19 Q Who is he?

20 A He's a CPA.

21 Q He works for Frost & Company?

22 A Yes.

- 1 Q Is he also the Clinton's accountant?
2 A I think he was early on, yes.
3 Q Do you know when he ceased being the
4 Clinton's accountant?
5 A I don't.
6 Q Do you know anything about the
7 circumstances in which he ceased being the Clinton's
8 accountant?
9 A I don't.
10 (Pause.)
11 Q Do you know a man named Michael Drake?
12 A Yes.
13 Q Who is Michael Drake?
14 A He used to work for Dan Lasater and he
15 married the owner of Pinky Punky.
16 Q Between 1982 and 1986, did you have any
17 communication with Mr. Drake?
18 A Between '82 and '86, yes.
19 Q What was the nature of the communications
20 you would have had with Mr. Drake between '82
21 and '86?
22 A Whatever was on their mind at any given

- 1 time.
2 Q What was your understanding of Mr. Drake's
3 responsibilities for the Lasater Company?
4 A I don't think I have ever cared enough to
5 ask. I just know he was an official with the
6 company.
7 Q Do you recall anything more specifically
8 about the communications you would have had with Mr.
9 Drake between '82 and '86?
10 A I can remember him sitting in my office a
11 couple of times. I can't remember what we were
12 talking about.
13 Q Did he ever discuss with you bond
14 underwriting contracts?
15 A In general I'm sure he did, yes.
16 Q Why are you sure that Mr. Drake would have
17 discussed bond underwriting contracts with you?
18 A Well, as I said in my previous period of
19 depositions, Lasater & Company never felt like they
20 were getting enough business.
21 Q So it would be your best recollection --
22 A So he would probably come in and tell me

1 where they were being wronged or something, and I
2 would listen, and I would make sure the process and
3 procedure were good and strong, and people felt open
4 and included.

5 Q What would you do to make sure that the
6 process was good and fair and strong?

7 A It depends on what the issue was. As I
8 believe we discussed -- wait a minute. Maybe that
9 was with Mr. Yost.

10 MR. COHEN: No, we went open and
11 inclusive, I don't know. Does your deposition index --
12

13 THE WITNESS: Actually it was Mr. Yost who
14 told us about another memo, a letter from Dan Lasater
15 to the Governor.

16 MR. GIUFFRA: Why don't we stop the
17 deposition for a while. It's quite rude to be
18 examining somebody and have a kibitzing conference
19 going on between opposing counsel.

20 MR. COLE: We didn't mean to interfere.

21 MR. GIUFFRA: It's hard for me to pay
22 attention to the questions.

1 MR. COHEN: In the last session, page 28
2 of my notes, Ms. Wright told you open inclusive and
3 competitive process, all in the context of Lasater
4 and his complaints.

5 MR. GIUFFRA: In the last deposition we
6 had very limited questions on Lasater.

7 THE WITNESS: That's correct.

8 What I am recalling is from my
9 conversations where Mr. Yost is telling me about a
10 letter from Dan Lasater to the Governor asking for
11 certain kinds of open notice and procedures.

12 BY MR. GIUFFRA:

13 Q This is Peter Yost of AP?

14 A Correct.

15 Q Do you have any independent recollection,
16 other than your conversation with Mr. Yost?

17 A I don't, no.

18 Q And do you recall making phone calls to
19 ADFA employees or to ADFA to see to it that the
20 bidding process was open?

21 A No.

22 Q You just testified that you did certain

1 things to make sure that the bidding process was an
2 open one, so what steps do you believe you took?

3 A Working with the appropriate member of the
4 staff, who was the liaison to ADFA.

5 Q Who would that have been?

6 A Or there were times when I had
7 conversations with Wooten, even before ADFA, when we
8 came in in '83, about the process was going to be,
9 actually I think somebody preceded Wooten, but that
10 the process would be open and inclusive, and not with
11 preference to any firm.

12 Q Do you recall a specific conversation with
13 Mr. Epps about that subject?

14 A Yes.

15 Q What more, if anything, do you recall
16 about the conversation with Mr. Epps?

17 A That's all.

18 Q And as far as you know, the fact that
19 someone had been a political contributor to the
20 Governor was never taken into account with regard to
21 ADFA bond underwriting?

22 A I know it wasn't.

1 Q Why do you know it wasn't?

2 A Well, first of all, almost all investment
3 bank companies were political contributors, and those
4 who were contributors to Bill Clinton's opponents
5 also got ADFA business. That's how I know.

6 Investment bank companies made political
7 contributions. Dan Lasater was hardly the only one
8 that gave money to Bill Clinton.

9 Q Do you know a man named Tom Carter?

10 A I don't think so.

11 Q Joe Morfoglio?

12 A Don't think so.

13 Q Dan Moody?

14 A I don't think so.

15 Q You know Patsy Thomasson, correct?

16 A Yes.

17 Q Did you have any communications with Ms.
18 Thomasson between 1982 and '86?

19 A Sure.

20 Q Do you recall what the substance of those
21 conversations might have been?

22 A Highway Commission business generally, or

1 when I was on leave to the campaign.

2 Q Was she involved in the fundraising
3 activities for the campaign?

4 A Not too much.

5 (Discussion off the record.)

6 (Pause.)

7 BY MR. GIUFFRA:

8 Q Ms. Wright, are you familiar with a bond
9 underwriting that was undertaken in 1985 to provide
10 capital for the purchase of a new police radio system
11 for the State of Arkansas?

12 A I am.

13 Q What do you know about --

14 MR. COHEN: Could you tell me where that
15 fits into the Senate Resolution, please?

16 MR. COLE: I'll tell you, to expedite
17 things, that while it's not specifically referenced
18 in the Resolution, it was a bond underwriting that
19 was handled in part by Lasater & Company, and after
20 extended discussion in which the majority indicated
21 that their intent was to include that particular
22 underwriting, the minority has not been objecting to

138

1 questions about the involvement of Lasater & Company
2 in that underwriting.

3 But I don't mean at all to tie you to that
4 interpretation of the Resolution.

5 MR. GIUFFRA: In fact, just for your own
6 information, at the time that Senate Resolution 120
7 was passed, the Chairman, in describing the scope of
8 the Resolution, expressly made reference to this
9 police radio underwriting. In fact, it was the only
10 specific bond underwriting that was referenced.

11 MR. COLE: And in the spirit of
12 cooperation, the minority lawyers will not be
13 objecting to this question.

14 MR. GIUFFRA: What's the last question?

15 BY MR. GIUFFRA:

16 Q What do you know about the bond
17 underwriting contracts for the State Police radio
18 system?

19 A This is a question parallel to someone
20 saying tell me about your life. I know that when a
21 state trooper was killed by I believe it was Mr.
22 Snell, and he was in one of those rural areas of

1 Arkansas that was out of the spectrum caught by the
2 state police radio system, that the colonel of the
3 state police and the Governor decided that we had to
4 do what it took to get an up-to-date communications
5 system, so there were no more blind spots that
6 troopers were caught where they couldn't summon help
7 or even communicate.

8 We then proceeded to explore an awful lot
9 of avenues of funding. We brought the Director of
10 the Department of Finance and Administration into
11 that exploration with the State Police Director Staff
12 and Commission and our staff was involved, and we
13 turned to legislators for ideas.

14 Q Was there any discussion of having this
15 bond underwriting done through the ADFA?

16 A There was at one point.

17 Once we decided to do the bond
18 underwriting, that that was the best way to go for
19 financing. We looked at an awful lot of ways.

20 I do think, it seems to me, that there was
21 some notion that it could be done through ADFA, but
22 as I recall, the ADFA legislation was a little

1 delayed in getting passed, so we went ahead with the
2 legislation authorizing the State Police Commission
3 to issue bonds. And I do not trust my memory on the
4 details of that.

5 But as I recall, there was just a
6 separation of the legislative authority on the bond
7 issuance.

8 Q Do you recall any discussion with anyone
9 with regard to whether Lasater & Company would
10 participate in the underwriting of these bonds?

11 A Well, I was, back to my story I was
12 telling, when we made this decision to do it with
13 bonds, I was very much aware that the State Police
14 weren't accustomed to issuing bonds. I put together
15 advisory groups including lawyers and bond lawyers,
16 and got them to include the State Purchasing
17 Director, who had been one of Mr. White's appointees,
18 in all of their deliberations to make sure that they
19 had the basics down.

20 I worked very hard that there would be an
21 open process. When we were approached by anybody who
22 was bidding, we were told that we would not be

1 involved in the selection of the firm.

2 I was aware that Lasater was in one of the
3 groups that was bidding on it or making a
4 presentation.

5 Q How did you come to be aware of the fact
6 that Lasater & Company was bidding?

7 A It was very publicly known. I'm sure they
8 notified us. It was in the newspapers, all these
9 State Police Commission meetings were open, and there
10 were quite a number of bidders presenters.

11 Q Did you speak with anyone from Lasater &
12 Company with regard to the police radio network bond
13 offering?

14 A I don't think so.

15 Q You didn't speak to Ms. Thomasson about
16 it?

17 A No.

18 Q Mr. Drake?

19 A Now we might have spoken to them in the
20 process of writing the legislation, but not once it
21 was reality. I mean most of the bond houses we were
22 keeping up on this legislation.

1 I mean, I have to say to you very
2 emphatically this was an open, clean, above-board
3 deal in which the Governor's office had no
4 involvement in the selection of the investment bank
5 firm.

6 Q How do you know the Governor's office was
7 not involved in the selection of the investment bank
8 firm?

9 A Because I oversaw this one, and the State
10 Police Commission chose the firm.

11 Q Did they advise you in advance of who the
12 underwriters would be?

13 A They did not, because they had to take a
14 vote.

15 Q So you learned?

16 A In an open meeting.

17 Q You learned of who the bond underwriters
18 would be at the same time that it was voted upon?

19 A No. I was told all along what it looked
20 like was shaping up and street talk, and my concern
21 about when it began to look like the majority of the
22 commission might support the Hutton-Lasater-Raney

1 package, expressed my concern to the Commissioners
2 several times, to be certain that Hutton's legal
3 problems would not have a bad effect on this bond
4 deal. I was quite concerned about the Hutton
5 problems.

6 Q These would be Hutton's problems that they
7 were having in connection with what?

8 A I don't remember exactly what it was. It
9 had been very well publicized that they had been
10 sanctioned in some way.

11 Q Were you aware, at the time in which the
12 underwriting business was given to Mr. Lasater's
13 firm, that Mr. Lasater used cocaine?

14 MR. COLE: Before you answer that
15 question, Ms. Wright, I just want to note the
16 standard objection that it's already been argued, the
17 line of questioning regarding Mr. Lasater's cocaine
18 use of course has been widely reported in the news
19 media, but it's not, in the minority's view, an
20 appropriate line of inquiry here.

21 MR. COHEN: It doesn't matter. I'm going
22 to direct her not to answer it, because if Mr.

1 Giuffra looks at his last series of inquiries on this
2 subject, my recollection is we went through, we
3 actually went through a little song and dance on the
4 whole case.

5 So if we could move to the substance of
6 this.

7 MR. GIUFFRA: Let's just check.

8 (Pause.)
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1 I don't believe that question was asked. In the
2 index of the case, it wasn't asked.

3 MR. COHEN: Did you look up cocaine? Is
4 cocaine in the index?

5 MR. GIUFFRA: No.

6 MR. COHEN: It's ridiculous to be
7 inquiring about this subject.

8 MR. GIUFFRA: Ms. Wright just testified
9 that she was concerned about E.F. Hutton's legal
10 problems having some impact upon its ability to be a
11 bondwriter. And I just was asking if she knew about
12 Mr. Lasater's cocaine problems disqualifying him from
13 being a bondwriter.

14 MR. COLE: I don't want to debate this on
15 the record. As a former securities lawyer, the fact
16 that a firm has been sanctioned as a firm, and the
17 fact that an individual associated with the firm may
18 have several criminal problems are very different
19 legal matters.

20 I can't let a statement like that just
21 stand on the record. But go ahead and answer the
22 question.

1 MR. GIUFFRA: I'm aware of the "bad boy"
2 provision in securities law.

3 MR. COHEN: As well you should be.

4 THE WITNESS: I was aware of rumors about
5 a very wild lifestyle of Mr. Lasater. We did from
6 time to time ask the state police director to
7 ascertain whether there were investigations of any of
8 these rumors going on by any of the various
9 jurisdictions of law enforcement. There were not.

10 BY MR. GIUFFRA:

11 Q You were advised that there were no
12 investigations?

13 A That's correct.

14 Q Where did you hear these rumors from? Is
15 this street talk?

16 A Just street talk, yes.

17 Q Were any of the rumors in connection with
18 Mr. Clinton's brother Roger?

19 A No. Those were separate rumors.

20 Q Did there come a time when you learned of
21 a federal investigation of Mr. Lasater?

22 A Yes. There was very highly publicized

1 grand jury information.

2 Q Did you learn of that investigation at the
3 same time it became public?

4 A Correct.

5 Q Now, you're aware that in late '84, Roger
6 Clinton was arrested for drug use, correct?

7 MR. COHEN: Mr. Giuffra, if you'll look at
8 your index for Roger Clinton, I think you're going
9 to --

10 MR. GIUFFRA: I'm more than happy to read
11 you the questions. "Roger Clinton worked for Dan
12 Lasater? Answer: Briefly. Do you recall when that
13 was approximately? I don't. Was the governor aware
14 of the fact that Roger worked for Dan Lasater? Oh,
15 yes. Did the governor play a role in getting Roger a
16 job with Dan Lasater, as far as you know? I don't
17 know."

18 MR. COHEN: Now your question is, did she
19 know that Roger --

20 MR. GIUFFRA: Roger was arrested in late
21 1984?

22 MR. COHEN: Your question is, did she know

1 that?

2 MR. GIUFFRA: Yes.

3 MR. COHEN: Did you know that fact at that
4 time?

5 THE WITNESS: Yes. I mean, I don't
6 remember the date he was arrested, but I was
7 certainly aware of it.

8 BY MR. GIUFFRA:

9 Q Were you aware of the fact that Roger
10 Clinton used drugs with Mr. Lasater?

11 A I was not.

12 Q Did there come a time when you learned
13 that Mr. Roger Clinton used drugs with Dan Lasater?

14 MR. COHEN: What's the relevance of that
15 one?

16 MR. GIUFFRA: Same line of stuff;
17 knowledge with regard to Lasater's drug use. We've
18 asked these in other depositions.

19 MR. COLE: Over the objections of the
20 minority, which stand here. This is a completely
21 inappropriate line of inquiry, but it's easier to go
22 through it than to get a ruling from the Chairman.

1 MR. COHEN: Go ahead.

2 THE WITNESS: I don't know that I ever
3 focused on their using.

4 BY MR. GIUFFRA:

5 Q Did there come a time when you learned
6 that Roger Clinton and Mr. Lasater used illegal drugs
7 together?

8 A I don't know that I ever learned that.

9 Q Did you ever discuss with the governor Mr.
10 Lasater's use of illegal drugs?

11 A I discussed rumors with him.

12 Q Do you recall when you discussed rumors
13 with Governor Clinton?

14 A Just from time to time, and from time to
15 time we made certain that he was not under
16 investigation.

17 Q Was this in connection with fundraising
18 activities that Mr. Lasater was conducting for
19 Governor Clinton?

20 A No. It probably involved being in the
21 final list for the state police radio bond, or
22 housing bonds, or state business.

1 Q The fact whether Mr. Lasater was under
2 investigation for something involving illegal drugs
3 would have been a concern of yourself and the
4 governor with regard to whether Mr. Lasater's firm
5 should receive a bond underwriting contract from the
6 State of Arkansas?

7 A As I explained to you in my previous
8 deposition, there were incredibly scurrilous rumors
9 out on the streets about investment bankers all the
10 time. It is, as you know, a delicate line to walk
11 about being fair and not judging people on scurrilous
12 rumors spread about them, versus also knowing whether
13 there's any reality to it.

14 We did what we could to determine whether
15 there was reality and maintain fairness.

16 Q This was in connection with the bond
17 underwriting contracts?

18 A That or whatever else.

19 Q That's your best recollection, probably,
20 in connection with the police bond underwriting?

21 MR. COHEN: That's not been her testimony,
22 Mr. Giuffra.

1 MR. GIUFFRA: She's been a little bit
2 vague.

3 MR. COHEN: She has not been able to tie
4 it to any particular bond offering.

5 THE WITNESS: I don't remember
6 specifically. It probably was tied to specific kinds
7 of a crescendo of rumors, though I do vaguely think
8 that I suggested to Colonel Goodwin, when it appeared
9 that the Hutton Lasater Raney group was in the
10 finalists for the state police bond deal, that he
11 make another check.

12 BY MR. GIUFFRA:

13 Q Do you know whether Colonel Goodwin made
14 such a check?

15 A I seem to remember --

16 Q -- that he did make a check?

17 A Yes. If I asked him to, he did.

18 Q He probably would have reported back to
19 you?

20 A Oh, absolutely.

21 Q Do you know whether Governor Clinton would
22 have discussed Mr. Lasater's drug use with Colonel

1 Goodwin?

2 A He could only have discussed rumors.

3 Q Do you recall him discussing these rumors
4 with Colonel Goodwin?

5 A I don't recall specifically. But it
6 wouldn't surprise me.

7 Q Do you know whether the governor attended
8 any meetings with Colonel Goodwin with regard to the
9 police radio bond offering?

10 A I don't believe so.

11 Q So the meetings would have been attended
12 by yourself. Anyone else from the governor's,
13 correct? You attended meetings with Colonel Goodwin
14 about the police radio bond offering?

15 A Well, I brought in the chairman of the
16 commission, the director, and then people from DF&A,
17 outside lawyers, and we had meetings about them.
18 Then we asked that they maintain the state purchasing
19 director as an advisor all the way through the
20 process, which they did. And I assume you have read
21 all of the minutes of the meetings.

22 Q Do you know whether Mr. Drake met with Sam

1 Bratton in connection with the police radio bond
2 underwriting contract?

3 A I don't think he would have before they
4 were selected. After they had been selected by the
5 Commission, they were part of the team from the state
6 police that we were then trying to get the
7 legislative approval on, and we were very much
8 involved in that. And the governor's office has a
9 member on the legislative telecommunications study
10 commission, and Sam generally filled that slot and
11 had to sign off on the proposal.

12 And I had conversations with Mr. Drake at
13 that point, after they had selected. We were not
14 involved in their selection. Once they were
15 selected, we were involved in trying to get the
16 legislature to sign off on the team so that we could
17 get the system going.

18 (Pause.)

19 MR. COHEN: Time, Mr. Giuffra?

20 MR. GIUFFRA: We're getting there.

21 MR. COHEN: You promised. It's part of
22 our deal.

1 BY MR. GIUFFRA:

2 Q You were aware, prior to the decision by
3 the state police commission that the E.F. Hutton-
4 Raney-Lasater group was among the finalists, right,
5 to be the bond underwriters?

6 A Yes.

7 Q Were you aware that they were the leading
8 candidate?

9 A Yes.

10 Q And they were the leading candidate?

11 A Everybody felt compelled to tell me stuff
12 whether I wanted to know or not.

13 Q Were they the leading candidate from the
14 beginning of the process to the end of the process?

15 A No, I don't believe so at all.

16 Q Do you know who the leading candidate
17 would have been at the beginning of the process?

18 A It was an open process. I don't think
19 there was.

20 Q Do you know why they were the leading
21 candidate?

22 A Because of the proposal they put together.

1 Q Do you know what specifically about that
2 proposal?

3 A I don't recall. At the time, I did.

4 Q Do you know how the Hutton-Lasater-Raney
5 underwriting team was put together?

6 A I don't.

7 Q Do you know why Lasater was put on the
8 team?

9 A I don't.

10 Q Have you heard -- do you have any
11 understanding that Lasater was put on the team
12 because of Mr. Lasater's relationship with the
13 governor's brother?

14 A I have no idea.

15 Q Has anyone ever indicated to you that
16 Lasater was put on the team because of Lasater's
17 relationship with Governor Clinton?

18 A I saw a newspaper clip to that effect.

19 Q Any other information?

20 A And all of that.

21 Q You never discussed it with Drake, for
22 example?

1 A No.

2 Q You never discussed it with Governor
3 Clinton?

4 A No.

5 Q The fact that Lasater was put on the team
6 because of his relationship with the governor?

7 A I think all the firms that bid had a
8 relationship with the governor.

9 MR. GIUFFRA: Now might be a good time
10 just to take a five-minute break.

11 (Recess.)

12 BY MR. GIUFFRA:

13 Q Do you know someone by the name of Johnny
14 Mitchum?

15 A Yes.

16 Q Who is Johnny Mitchum?

17 A He was a member of the state police
18 commission at the time, I believe appointed by
19 Governor White.

20 Q Do you know somebody named John Myers?

21 A I don't think so.

22 Q An actuary who was hired to underwrite --

1 A Do an independent analysis, one of the
2 commissioners hired -- maybe Rockefeller, maybe
3 Mitchum.

4 Q Do you recall who paid the independent
5 actuary?

6 A I think one of those people did
7 personally.

8 Q Do you remember whether Lasater paid for
9 the independent auditor?

10 A I have no idea. I mean, if Rockefeller
11 hired him, then I'm sure Rockefeller paid for it.

12 (Pause.)

13 I think I remember. There was a 4-2 vote
14 on the commission, and the two votes against it were
15 our appointees, and maybe one of the votes for it was
16 our appointee. I can't remember. Most of them were
17 Republicans, as I recall.

18 Q Was the governor involved in the selection
19 process for the underwriters for the state police
20 radio contract?

21 A He was not.

22 MR. COHEN: Asked and answered a couple of

1 times.

2 MR. GIUFFRA: Just want to make sure.

3 BY MR. GIUFFRA:

4 Q But he was involved in discussions about
5 the underwriting itself.

6 Did you have any communication with the
7 governor about the underwriting for the state police
8 radio?

9 A You mean when we made the decision that
10 was the most feasible way of financing?

11 Q Yes.

12 A Oh, yes. We kept him informed of those.
13 We never would have made such a big step as that
14 without his agreement.

15 Q Do you recall ever discussing Lasater with
16 the governor in connection with the state police
17 radio contract?

18 A I think I kept him informed of what we
19 were being told. I mean, we were aware -- I mean, he
20 was aware I was very involved in getting a good
21 process going. He was then aware that we had hands
22 off of the process until a selection was made, and

1 then he was very aware of our involvement in getting
2 the legislation approval.

3 Q Was he aware of Lasater's bid?

4 A I'm certain he was. It was all in the
5 newspapers.

6 Q Do you know whether he had any
7 communication with Lasater about Lasater's bid?

8 A I doubt it.

9 Q Why do you doubt it?

10 A I don't actually know. I don't think so.

11 Q Did Mike Gaines work in the governor's
12 office?

13 A Correct.

14 Q His position was?

15 A He was our liaison with criminal justice
16 entities, including the state police.

17 Q And he had a role with regard to the state
18 police radio contract, right?

19 A Not really.

20 Q Is there a man named Knox who was involved
21 in the state police radio contract?

22 A Senator Knox Nelson was the chairman of

1 the telecommunications study committee.

2 MR. COHEN: May I make a suggestion? Pass
3 the documents over across the table. It's not a
4 memory test. It's your deposition.

5 THE WITNESS: This is what he just read to
6 me.

7 MR. COHEN: If, in my judgment, the Senate
8 staff -- no one in this room, understand -- had not
9 leaked the documents to the press, and we'd not
10 already been questioned and had the documents read to
11 us, perhaps this line of inquiry or method of inquiry
12 would make sense. Where you to ask questions based
13 on what's in the documents, have her answer to the
14 best of her recollection or lack thereof, and then
15 show her the documents, which may or may not refresh,
16 so she gets to go over it again.

17 MR. GIUFFRA: I don't know what documents
18 she's been shown.

19 BY MR. GIUFFRA:

20 Q Were you shown documents by the AP
21 reporter?

22 A He didn't have them.

1 MR. COHEN: He didn't have them. Bossie
2 just let him read them.

3 MR. GIUFFRA: Well, we don't know what
4 Bossie did.

5 MR. COHEN: Whoever gave him access to the
6 documents that either Kendall or we produced to the
7 United States Senate in confidence were read to him.

8 MR. GIUFFRA: Well, let's just go on. And
9 I don't know what was read to him.

10 MR. COHEN: We do, because he told us.

11 THE WITNESS: This is the memo from Mike
12 Gaines telling us who the commission --

13 MR. GIUFFRA: Let's look at DKS N 27162,
14 okay?

15 (Document handed to witness.)

16 BY MR. GIUFFRA:

17 Q Do you recall seeing this memo? It's
18 directed from Mike Gaines to you and the governor,
19 dated May 1, 1985.

20 A Uh-huh.

21 Q You do recall seeing that at the time?

22 A Yes.

1 Q Why do you think you recall seeing it at
2 the time?

3 A I mean, it was just one more time we kept
4 being told things whether we wanted to know them or
5 not. This was a big deal to these people in the
6 state police, and they kept wanting to share what was
7 going on.

8 So, you know, I remember my first reaction
9 was Colonel Goodwin telling Mike how it looked like
10 it was lining up.

11 Q Let's look at the bottom of the letter.

12 A And Mike then passed it on.

13 Q Is that your handwriting at the bottom?

14 A Yeah. I then went in --

15 Q Why don't you read what your handwriting
16 says?

17 A "Gov -- we have real problems here, since
18 street talk is that Lasater put in unreasonably low
19 bid, knowing he can raise it once he gets it. I hope
20 ASP had experts review everything. Also, how does
21 this gibe with..." -- and I can't read that.

22 Q And you don't know what this stuff is on

1 the other side?
2 A No.
3 Q You've never seen the other side of the
4 document, right?
5 A Well, I wrote it, so I've obviously seen
6 it.
7 Q But you haven't seen it since?
8 A No.
9 Q Mr. Kendall hasn't shown you this
10 document?
11 A After Yost called --
12 MR. COHEN: I may have obtained and showed
13 her this document.
14 THE WITNESS: But it didn't have it
15 either.
16 BY MR. GIUFFRA:
17 Q I just want to know whether you have the
18 side that's marked down?
19 A No.
20 Q What do you recall about street talk about
21 Mr. Lasater putting out an unreasonably low bid?
22 A Well, I mean, whenever these things were

1 tightening up between bond houses, they were always
2 putting out crap about each other. And this
3 particular crap was that he was assuming he could
4 increase the cost of it, and he just put in a low
5 bid.
6 Now, the facts show different from that,
7 and I just raised it with Bill and said that I hoped
8 the experts reviewed it carefully. Now, do you want
9 me to read this to you, what he said? Are we there
10 yet?
11 Q Let's go through your note.
12 Who was the street talk from?
13 A I have no idea.
14 Q And you don't recall anything more about
15 Lasater's low bid?
16 A It wasn't a low bid, as I recall.
17 Q Why do you believe it wasn't a low bid?
18 A Because it wasn't based on just price.
19 There was a package. As I recall, I don't remember
20 the specific components of all the proposals.
21 Q What do you recall about this notion of
22 him being able to raise it once he gets it?

1 A That that was false. I mean, it couldn't
2 happen. But that was what was being said about him.
3 I don't know if he thought that.

4 Q Why don't you read the governor's
5 handwriting for me?

6 A "Lasater should be told it must be price.
7 To Knox's letter..." -- I can't read. "Knox's
8 letter..." -- blank, blank -- "...info he develops.
9 Stop. This equipment for cheaper equipment, but
10 Goodwin should brief him on what he intends to do."

11 It just indicates that about the same
12 time, we had a letter from Senator Nelson, I gather,
13 having to do with some cheaper equipment from that
14 which had been selected by the state police
15 commission.

16 Q Do you know why Mr. Gaines would have
17 written this memo to the governor?

18 A Just to pass on.

19 MR. COHEN: Did Mr. Gaines tell you why he
20 wrote this to the governor?

21 THE WITNESS: All staff were supposed to
22 keep me informed about everything.

1 MR. COHEN: Did he tell you?

2 THE WITNESS: No. He was reporting to me
3 about a communication from the state police director.

4 BY MR. GIUFFRA:

5 Q Would he normally report on the fact that
6 a particular bond firm was going to get --

7 A No. That's the point, Mr. Giuffra. The
8 state police commission did not normally do bonds.

9 Q Did Mr. Gaines normally -- strike that.

10 Mr. Gaines would not have been the person
11 doing the reporting. But do you know why in this
12 particular memo, the only reference that's being made
13 is to Mr. Lasater, not the other members of the
14 group?

15 A I have no idea.

16 Q Do you know whether the governor asked Mr.
17 Gaines where things stood with regard to the Lasater
18 bid?

19 A No.

20 Q You don't know whether the governor ever
21 spoke to Lasater about whether his bid was
22 unreasonably low?

1 A The whole way this is written is the
2 director's observations that he passed on to Gaines.
3 We weren't involved, so he was just sharing
4 information.

5 Q Do you know whether Lasater ever spoke
6 with the governor --

7 A I don't know.

8 Q -- about whether the bid was too low?

9 A No. I went back to the commission with
10 this.

11 Q You did?

12 A Yeah.

13 Q Why did you do it?

14 A Because I was the one working with the
15 commission on the process.

16 Q What action did you take?

17 A Just to make sure that it's been analyzed
18 properly, it's not too low, and the bid is the price.
19 There ain't gonna be no more money.

20 Q Let me show you another document. This is
21 DKS N 18188.

22 MR. COLE: Before we go on, I just want to

1 make sure I understand what Ms. Wright just testified
2 to.

3 If I'm understanding you correctly, Ms.
4 Wright, the governor's note on the document indicated
5 something to the effect that Lasater must be told the
6 price is the price, and you went back to the state
7 police commission to make sure that the proposals had
8 been carefully analyzed with that issue in mind.

9 THE WITNESS: Correct. I generally pass
10 all the rumors about all the bidders back to the
11 state police commission that came to me. That's what
12 I did with them.

13 (Pause.)

14 BY MR. GIUFFRA:

15 Q Is this your handwriting down at the
16 bottom?

17 A Uh-huh.

18 Q What does your handwriting say?

19 A It says, "Hutton will withdraw from the
20 proposal today, 5/7/85."

21 Q Did that in fact happen?

22 A No.

1 Q Do you recall why you wrote that?

2 A No, I don't.

3 Q Did there come a time when there was a
4 dispute as to whether the Lasater proposal was
5 comparable to the proposal put forward by someone
6 called First Capital?

7 A Yes. They were one of the bidders. And
8 when it went to the telecommunications study
9 committee for review and advice, they decided to hear
10 the losing competitors also.

11 Q Wasn't First Capital's bid lower than the
12 Lasater bid?

13 A I don't remember the specifics of the bid.
14 And if you don't have them all, by God, I'll get them
15 for you.

16 Q You don't recall any discussion? That's
17 my question with regard to whether the First Capital
18 bid was lower than the Lasater group bid?

19 A Bids like this aren't only on a dollar
20 basis. So no, I don't remember whether it was,
21 number one. Number two, there was a quality effect
22 also involved here.

1 Q Do you recall a discussion of this quality
2 difference between First Capital and Lasater?

3 A Well, at that point, the commission had
4 listened to the presentations and made a selection.
5 It was not the telecommunication study commission's
6 job to select the firm. So we were involved in
7 trying to get them to sign off on the next step so
8 the commission could go forward with getting a system
9 built.

10 MR. COLE: I'm sorry.

11 What was the telecommunications study
12 group? The state legislature?

13 THE WITNESS: It was a crazy amalgam of
14 House and Senate members, and maybe two executive
15 branch members. I'm sure it's an unconstitutional
16 body. But it's established by statute, and the
17 governor's office has a member of that commission.
18 Senator Nelson chaired it.

19 BY MR. GIUFFRA:

20 Q Do you recall any discussion of the
21 differences between the two bids?

22 A We had memos written by the state

1 purchasing director. We had all kinds of stuff when
2 they raised the issue to analyze it. At that point,
3 I read all the bids. I remember that.

4 Q Do you recall ascertaining that the
5 Lasater bid was better?

6 A Yeah. I mean, I ascertained that the
7 decision made by the commission was very reasonable.

8 Q What was your basis?

9 A I don't remember.

10 Q At no time --

11 A Have you ever read one of these bids?

12 MR. COHEN: He probably has. He's
13 probably the only person in the room who has.

14 MR. COLE: Excuse me.

15 MR. COHEN: I take it back.

16 (Laughter.)

17 BY MR. GIUFFRA:

18 Q At any time, did anyone from the
19 governor's office indicate that the governor
20 preferred that the Lasater bid be chosen over the
21 First Capital bid?

22 A No. But the telecommunications commission

172

1 role was not to choose a finance firm. That had been
2 done by the state police commission. So we were in
3 favor of proceeding with the state police commission
4 so we could get the system built. We were not
5 advocating on behalf of Lasater. We were advocating
6 on behalf of the next step in getting this thing
7 built.

8 MR. COHEN: I take it that's after the
9 selection had been made by the police commission at
10 that time?

11 THE WITNESS: That's correct.

12 MR. COHEN: Now you can show her the memo
13 that is about the First Capital objection to the
14 Lasater bid, or whatever, and we can go over this
15 again.

16 MR. GIUFFRA: DKS 27225.

17 (Document handed to witness.)

18 BY MR. GIUFFRA:

19 Q This looks like it says 5/17/85. Do you
20 recall seeing this article?

21 A Oh, yes. I read everything.

22 Q It says "State Panel Delays Action on New

1 System."

2 A I don't recall that they were supposed to
3 approve the financiers. They just had to sign off,
4 advise and consent on every role. I don't think they
5 could stop it, but politically we felt it important
6 to proceed with their consent.

7 (Pause.)

8 They threw it to the legislative council,
9 which I think it took them two meetings to decide to.

10 (Pause.)

11 Q Do you know whether Michael Drake ever
12 spoke to the governor about the state police radio
13 contract?

14 A I don't know.

15 Q Did you ever speak to Michael Drake about
16 the state police radio contract?

17 A I did after they'd been selected.

18 MR. COHEN: We went over this several
19 times, counsel. Several times. End question.

20 BY MR. GIUFFRA:

21 Q Why don't I show you DKS 18182?

22 (Document handed to witness.)

1 BY MR. GIUFFRA:

2 Q This is a memo you wrote to the governor
3 dated 5/13/85. It's re: Knox Nelson state police
4 communications.

5 Who is Mahlon?

6 A Mahlon? Mahlon Martin was the director of
7 the Department of Finance and Administration.

8 Q This is the dispute Senator Knox was
9 having, or Senator Nelson was having?

10 A Well, he was sort of saying, "Go get the
11 money, borrow money from the state retirement system,
12 and forget the whole process that we've been through
13 on issuing bonds."

14 I was just informing the governor that I
15 had asked Drake and a commissioner to go visit with
16 Nelson about what it was they were --

17 Q This memo would indicate the governor knew
18 who Drake was, correct?

19 A Sure.

20 Q And he would know that Drake worked for
21 Lasater?

22 A Sure.

1 Q After the contract, after the state police
2 commission voted Lasater, approved the Lasater bid,
3 do you know whether the governor spoke to anyone from
4 Lasater about the bid?

5 A I don't.

6 Q Do you know whether he ever spoke to
7 Drake?

8 A I don't know. I continued to handle --

9 Q So the only conversation you recall is
10 this conversation with Drake after Lasater got the
11 business?

12 A I'm sure I talked to him two or three
13 times before we got this thing through the
14 legislative process.

15 Q Because of the risk that someone would try
16 to do it by another financing vehicle, correct?

17 A Oh, no. We wouldn't have minded if there
18 were a more feasible financial vehicle. But as I
19 began by telling you, we studied all kinds of ways to
20 finance this thing, and we decided on the bonds. And
21 this was to borrow from the retirement system, and we
22 had used the money from the retirement system, but

1 where there was an economic return. This was not an
2 economic development entity. There was no investment
3 to recoup for the retirement system, and I knew that
4 the board of that system would never regard it as a
5 "prudent investment." There was no return to be had
6 on a capital outlay like this.

7 Q Do you recall anything more about the
8 communications you had with Drake in connection with
9 the actual drafting of the legislation?

10 A No, I don't. Nothing distinctive from
11 anybody else that was involved in the writing of it.

12 Q Let me show you memo DKSJN 18184.
13 (Document handed to witness.)

14 BY MR. GIUFFRA:

15 Q This is from Mike Gaines to you, dated May
16 15, '85. Do you recall receiving this memo from Mr.
17 Gaines?

18 A I don't remember it specifically as a memo
19 from Mike Gaines. I remember being told that there
20 was going to be this contest, and there were these
21 kinds of points, none of which I understood. But,
22 you know, Sam was looking into it.

1 (Pause.)

2 (Document handed to witness.)

3 BY MR. GIUFFRA:

4 Q 18182. That's the governor's handwriting
5 where it says "No, someone can reason with him?"

6 A Uh-huh, talking about Knox.

7 (Pause.)

8 Q You don't recall this memo at all?

9 A No, I do.

10 Q What do you recall about the memo?

11 A That this presented the argument of the
12 competitive contest.

13 Q Did you have any discussions with Sam
14 Bratton about that?

15 A Yes.

16 Q What do you recall about those
17 discussions?

18 A Again, to go into the analysis to make
19 sure that it complied with what the law set forth.
20 My role was not to be expert on the technicalities
21 and the details, but to ask the questions of people
22 who I trusted to make certain that things were in

1 compliance.

2 So that's why I can't remember specific
3 arguments and stuff. I think Mike is wrong about
4 Hutton drafting legislation. Their law firm may have
5 drafted it, but I tend to recall that the same law
6 firm that helped us with the ADFA legislation ended
7 up writing that for us, which was the Mitchell firm.
8 That's what I seem to recall, and I don't know
9 whether they represented Lasater or not.

10 Q Do you recall whether the police
11 commission originally voted down the bond deal
12 proposal?

13 A I don't remember that, no.

14 (Pause.)

15 Q This is DKS 17322.

16 (Document handed to witness.)

17 BY MR. GIUFFRA:

18 Q Is this your handwriting?

19 A No.

20 Q Do you know whose handwriting it is?

21 (Pause.)

22 A I think it's Loretta Lynch's handwriting.

1 Q Do you remember the issue of the state
2 police radio contract coming up during the '92
3 campaign?

4 A Yes.

5 Q What do you recall about it coming up
6 during the '92 campaign?

7 A I remember that I came down like on a
8 Friday and a Saturday night, quite late. The L.A.
9 Times called with some questions about it, and I
10 tried to talk to them about it. They may have -- I
11 don't know. This was not done. This was obviously
12 compiled before I got there by people who really
13 didn't know what they were doing.

14 Q There's a reference here to "L.D. Brown
15 used to be in governor's security concern. What
16 would he say?"

17 Was L.D. Brown in some way involved in the
18 state police radio contract?

19 A No.

20 Q As far as you know?

21 A No.

22 Q Was there some concern about what L.D.

1 Brown would say about this state police radio
2 contract?

3 A Not from me.

4 Q Or Lasater?

5 A No.

6 (Pause.)

7 You know, I still remember the trooper who
8 got killed, and how close we were to that family.
9 And his brother-in-law was on governor's security.
10 Our whole driving force was to keep that from
11 happening to any more troopers.

12 And that Richard Wayne Snell, who killed
13 him, is the one that got executed the day of the
14 Oklahoma City bombing, which some people think may
15 have been the reason for that. I mean, our concern
16 was not Dan Lasater or which financing company. It
17 was that we didn't want any troopers being shot.

18 Q Let me show you a document that bears
19 Bates number DKSJ 16144 to 47.

20 (Document handed to witness.)

21 BY MR. GIUFFRÀ:

22 Q This is a memo from yourself to the

1 governor attaching a fact sheet. Do you recall the
2 circumstances? This is dated 10/9/86.

3 Do you recall the circumstances under
4 which this was prepared?

5 A Uh-huh.

6 Q What were the circumstances?

7 A Well, this was the memo paper I used in
8 campaigns, because it's not the governor's office.
9 This was in October before the November campaign, and
10 Frank White was accusing us of all kinds of nutty
11 stuff about Lasater and ADFA. And Grumman and
12 Barton, the two names referred to, are two political
13 reporters; one with the Arkansas Democrat, the other
14 with the Arkansas Gazette. They had asked for
15 information. This is what I was giving.

16 Q What were the accusations Mr. White was
17 making with regard to the governor and Lasater?

18 A Basically that we all wallowed together in
19 some pig hole.

20 Q Do you recall anything more specific about
21 what the allegations were --

22 MR. COLE: That's a term of art in

1 Arkansas.

2 BY MR. GIUFFRA:

3 Q -- that Mr. White made about the governor
4 and Mr. Lasater?

5 A I mean, it was preposterous stuff.

6 Q What were the allegations?

7 A The insinuation was that we were
8 supporting his cocaine habit or something. I don't
9 know. I mean, it was ridiculous. It was guilt by
10 association. He had been a contributor of ours, and
11 of course I also remember that same campaign, it was
12 revealed that Mr. Lasater had been a contributor of
13 Governor White's. And furthermore, after tearing us
14 to pieces in the press about ADFA and Lasater's
15 contracts and stuff -- and this was during the grand
16 jury going on about Lasater across the street from my
17 headquarters.

18 So we were seeing these witnesses going in
19 and out the side door, and the press was all staked
20 out, and -- I don't know. You want me to shut up.

21 Q Were there ever any discussions --

22 A No.

1 Q Strike that.

2 Did you ever do an investigation to
3 ascertain --

4 MR. COHEN: He's actually trying to get
5 the next question out.

6 BY MR. GIUFFRA:

7 Q Did you ever conduct an investigation to
8 try to ascertain, or an inquiry to ascertain, the
9 extent to which the governor had contact with Mr.
10 Lasater between '82 and '86?

11 A No. Why would I do that?

12 Q Do you know approximately how much they
13 would have had contact?

14 MR. COLE: That's been asked several
15 times, I think.

16 THE WITNESS: No.

17 BY MR. GIUFFRA:

18 Q You never did an investigation to look
19 into that? You never asked the governor?

20 The answer is "no" to the first question?

21 A Right. The answer is "no."

22 Q Did you ever ask the governor how much he

184

1 met with Lasater?

2 A No.

3 (Pause.)

4 Q Do you know whether Dan Lasater had a
5 meeting with the governor in which Dan Lasater
6 complained about the fact that he was not receiving
7 sufficient state bond business?

8 A I do know that.

9 Q Did you attend the meeting?

10 A No.

11 Q How do you know about it?

12 A Mr. Yost read me the letter about it.

13 Q Do you know whether the governor
14 attended --

15 (Pause.)

16 (Discussion off the record.)

17 BY MR. GIUFFRA:

18 Q Do you recall a meeting that the governor
19 and Dan Lasater of E.F. Hutton had at the Legacy
20 Hotel in January '85?

21 A E.F. Hutton and Lasater put together a
22 seminar on economic development for the future to

1 which they invited the governor, and which I believe
2 he attended.

3 Q Do you know anything more about that
4 seminar?

5 A No. I mean, it was shortly after -- it
6 was when we were pushing all of our economic
7 development programs. That was our economic
8 development session, and as I told you in our last
9 deposition, they wanted to be perceived by the
10 governor as very supportive and helpful of what he
11 was doing. And a lot of these firms came up with
12 creative ideas.

13 Q Let me show you a document, DKS N 26471.
14 I'm going as quickly as I can; I apologize.

15 A I'm going to request that we go to the
16 letter that you didn't show me that Mr. Yost wrote
17 me, with some handwriting on it, from Lasater to the
18 governor.

19 What do you want?

20 Q Do you recall seeing this?
21 (Document handed to witness.)

22 BY MR. GIUFFRA:

1 Q Have you ever seen this before?

2 A Obviously I have. It's got my handwriting
3 on it.

4 Q There's handwriting that looks like the
5 governor's handwriting, which is "BW, MS, CG."

6 A Uh-huh.

7 Q Then it has some handwriting. What is
8 that?

9 A "Made to file their recommendations for
10 secretary of AHDA. They want me to meet with them,
11 E.F. Hutton night of 10th. I think I should; 2
12 hours. Let's discuss."

13 I wrote back, "This is when Dick Morris is
14 coming." He then said --

15 Q He proposed a different time?

16 A Yes.

17 MR. COHEN: And the question about this
18 document is?

19 BY MR. GIUFFRA:

20 Q What is the reference to "need to fill?"
21 What is it, "file their recs for secretary?"

22 A Their recs for secretary of AHDA.

1 Q What do you recall about that? Anything?

2 A See, I think we had a director before
3 Wooten, whose name was like Linda Trent or something
4 like that. So they were recommending somebody as the
5 executive director of the housing development agency.

6 Q Do you recall anything more about the
7 recommendations?

8 A Routine stuff; "file it," he says.

9 Q You don't recall anything more about the
10 Dan Lasater/E.F. Hutton meeting?

11 A No. It was just a presentation about
12 their economic development ideas for the state.
13 There were other people there. I mean, it wasn't
14 just for the governor, I don't think. I think they
15 had legislators there.

16 Q Do you recall any discussion during the
17 '92 campaign of whether -- strike that.

18 Do you know whether the governor ever
19 attended one of Mr. Lasater's Derby Day parties?

20 A Oh, yeah.

21 Q More than one?

22 A Probably.

1 Q Were these big events?

2 A Huge. I went one time, and it was so
3 crowded I never wanted to go again; thousands of
4 people.

5 Q Was there an issue during the '92 campaign
6 of whether there was drug use at one of these Derby
7 Day parties?

8 MR. COHEN: What's the relevance of that?

9 MR. COLE: I'm going to object to that.

10 MR. COHEN: I'll direct her not to answer.

11 MR. COLE: It's outside the scope of the
12 resolution.

13 MR. COHEN: The hour is late. We agreed
14 to two hours. We're now at four and a half.

15 BY MR. GIUFFRA:

16 Q I'll show her the document: DKS N 19664.
17 It says "George Locke, Collins, Locke and Lasater.
18 Bill Rempel."

19 Who's Bill Rempel?

20 A He was an L.A. Times reporter.

21 Q "Re: drugs at annual Derby Day party." Is
22 this just a press inquiry. Is this your handwriting?

1 A No.

2 Q Loretta's?

3 A I think so.

4 Q There's a discussion further on. "FBI 201
5 file, an investigative file. Some U.S. attorneys
6 will give it out easily."

7 Do you remember that issue coming up?

8 MR. COHEN: I have the same objection and
9 same direction. It has nothing to do with this
10 resolution.

11 MR. COLE: I'd also ask, Ms. Wright, that
12 you not speculate unless you know exactly what's in
13 the mind of Ms. Lynch or whoever drafted this. I
14 don't think it's appropriate for you to speculate.

15 THE WITNESS: The only comment I have to
16 make is that these were the kinds of notes done
17 before I came to the campaign. They were done by
18 people who weren't from Arkansas, didn't know who
19 they were asking about what, and they were inaccurate
20 and not used.

21 I don't even know where they surfaced. In
22 order to reply to the subpoena, they were irrelevant.

1 (Pause.)

2 BY MR. GIUFFRA:

3 Q Do you recall an issue arising with regard
4 to whether the Rose Law Firm served as underwriter
5 counsel for ADFA bond issues?

6 MR. COLE: Can you help me with the time
7 frame there? Are you talking about during the
8 campaign?

9 MR. GIUFFRA: During the 1980s.

10 THE WITNESS: Well, again, in the '86
11 campaign, Governor White made a huge issue out of the
12 Rose Law Firm.

13 BY MR. GIUFFRA:

14 Q Let me show you a document that bears
15 Bates number CCBW 632 to 636. It's a memo from Bob
16 Nash to you, re: underwriter's counsel.

17 Do you know when this would have been
18 prepared?

19 A This was prepared during the '92 campaign.

20 Q Did Mr. Nash prepare this at your
21 direction?

22 A Yes, at my request. He didn't work for me

1 at that point.

2 (Pause.)

3 Q Do you know whether ADFA ever entered into
4 a lease with Madison Guaranty for some office space?

5 A Oh, yes.

6 Q What do you know about that lease?

7 MR. COLE: Didn't we have testimony about
8 this?

9 THE WITNESS: We talked about this in my
10 last deposition.

11 MR. COLE: Issues of objections as to
12 whether they were racist or not.

13 MR. COHEN: That's right. It was all
14 about the reason for it, and whether the reason for
15 their objection was racially motivated. They didn't
16 want to be in the inner city.

17 MR. GIUFFRA: Let me just look. I
18 apologize if I've done so.

19 (Pause.)

20 BY MR. GIUFFRA:

21 Q Let me just show you one document, CCBW
22 836.

1 (Document handed to witness.)

2 BY MR. GIUFFRA:

3 Q Do you know when this would have been
4 prepared?

5 MR. COLE: The question is, do you know
6 when it was prepared?

7 MR. GIUFFRA: Yes.

8 THE WITNESS: That's another --

9 BY MR. GIUFFRA:

10 Q -- '92 campaign?

11 A Uh-huh. Is that our Bates number?

12 (Pause.)

13 Q During the '92 campaign, did you maintain
14 copies of any documents relating to the ADFA bond
15 offerings?

16 A Well, yes. I pretty much pulled together
17 everything that was in storage, and there were lots
18 of newspaper articles about ADFA bond offerings. And
19 I had most of the year's newspaper clips.

20 I put together summaries of all ADFA bond
21 offerings. We obviously had good beginning points
22 from the '86 race.

1 Q Let me show you something. This bears
2 Bates FBI 3569 to 3590.

3 (Document handed to witness.)

4 MR. COLE: For the record, this is an FBI
5 302 report, I believe, of an interview with Mr.
6 Lasater concerning the investigation of his alleged
7 cocaine use.

8 It's the very strongly held view of the
9 minority that there's nothing in that 302, with
10 perhaps the exception of some background information
11 on Lasater and Company, that's relevant to this
12 investigation.

13 MR. GIUFFRA: It's a very simple question,
14 so let me just give the document.

15 MR. COHEN: I get to look at it first
16 before she answers. I just want to take a peek.

17 (Pause.)

18 MR. GIUFFRA: I have one question.

19 (Document handed to witness.)

20 BY MR. GIUFFRA:

21 Q The question is, have you ever seen this
22 document before?

1 (Pause.)

2 A I don't think so.

3 Q There was no discussion of an FBI
4 interview with Mr. Lasater during the '92 campaign
5 that you recall? Did anyone indicate to you that
6 they had information from the FBI interview about Mr.
7 Lasater during the '92 campaign?

8 MR. COLE: Mr. Giuffra, what portion of
9 the resolution are you proceeding under now if you're
10 investigating what did or didn't occur during the
11 Clinton '92 presidential campaign?

12 MR. GIUFFRA: Just answer the question.

13 MR. COLE: Actually, I'm not so sure.

14 I think I'm going to instruct you not to
15 answer, unless you can articulate some basis in the
16 resolution.

17 MR. GIUFFRA: The same one I've been
18 relying on.

19 MR. COLE: The bond underwriting business
20 of ADFA?

21 MR. GIUFFRA: Right.

22 MR. COLE: Don't answer that question, Ms.

1 Wright.

2 You can get a ruling from the Chairman on
3 that, too, if you like.

4 BY MR. GIUFFRA:

5 Q You've never seen the document?

6 A I don't think so.

7 (Pause.)

8 MR. GIUFFRA: Let's go off the record for
9 a second.

10 (Discussion off the record.)

11 MR. GIUFFRA: The Committee has made a
12 request of certain date books of Ms. Wright for
13 various periods. Counsel has indicated that he's
14 going to look to see what he has. If you have the
15 date books, they'll be provided to the Committee, and
16 we appreciate that.

17 MR. COHEN: No problem.

18 BY MR. GIUFFRA:

19 Q Are you aware of any instances in which
20 Lasater or anyone in his employ ever provided any
21 cash to the governor?

22 (Pause.)

1 MR. COLE: Does that question encompass a
2 campaign contribution that might have been made in
3 cash? It's kind of a vague question.

4 MR. GIUFFRA: The question stands.

5 THE WITNESS: I don't think so.

6 BY MR. GIUFFRA:

7 Q Do you know whether Lasater or anyone in
8 his employ would have provided any cash to any state
9 trooper to be delivered to the governor? No idea?

10 A I don't think so, no. I mean, I assume
11 you're basing these questions on something, and I
12 don't know what they are, which is why my hesitation.

13 MR. COHEN: It sounds like the indictment
14 exception to Resolution 120.

15 MR. COLE: It may be the American
16 Spectator press article exception to Senate
17 Resolution 120.

18 MR. COHEN: In any event --

19 MR. GIUFFRA: I'm just trying to ask the
20 questions, that's all. You would certainly agree,
21 Mr. Cole, had bags of cash been provided to --

22 MR. COLE: I merely asked a clarifying

1 question to see what was encompassed in your
2 question.

3 MR. COHEN: If we're going to wrap this
4 up, I can actually make the plane.

5 MR. GIUFFRA: I think I'm done.

6 MR. COLE: There's a problem here, in that
7 I would ordinarily like the opportunity to ask Ms.
8 Wright some questions on behalf of the minority. I
9 don't think, under the circumstances, after she's
10 been through two full days of depositions, that it's
11 fair to either her or her counsel, particularly since
12 her counsel would like to catch a plane.

13 But if they would indulge me on the record
14 for one more moment, Mr. Giuffra, I would like to
15 note that if this investigation continues beyond
16 February 29, I think that we're going to have to
17 discuss a different procedure for depositions like
18 this that go on for an extended length of time over a
19 great many subjects in the resolution. Because when
20 the resolution was drafted, it provided for
21 questioning by the majority and then the minority.

22 I don't think it envisioned this

1 situation, where I would essentially be forced to go
2 back and ask Ms. Wright about subjects that she
3 testified about on January 26, which is just not
4 feasible. So I think that's something you and I
5 should discuss for future depositions.

6 But for this deposition, it leaves me in
7 the unfortunate situation of not really having a
8 meaningful opportunity to question the witness.

9 MR. GIUFFRA: I would just note for the
10 record that, as you well know, at any point during
11 the course of my examination that you wanted to ask
12 any clarifying questions, I obviously never objected.

13 MR. COLE: And I've done that. So that's
14 another reason that I am not going to force the
15 witness and her counsel to stay here for me covering
16 areas that you've already covered.

17 MR. GIUFFRA: I would also note that one
18 and a half days of deposition for the chief of staff
19 of the Governor of Arkansas is hardly an extended
20 period of time.

21 MR. COLE: No. I just think that forcing
22 the minority to wait till the end of a day and a half

1 of questions is not feasible. So that's where we
2 are.

3 I'm not going to ask any questions at this
4 time.

5 MR. GIUFFRA: Thank you, Ms. Wright and
6 Mr. Cohen, for coming. We appreciate your
7 cooperation.

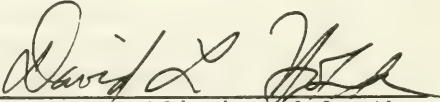
8 MR. COHEN: Thank you for having us.
9 (Whereupon, at 5:35 p.m., the taking of
10 the instant deposition ceased.)

11
12 -----
13 BETSEY WRIGHT
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

200

I, DAVID L. HOFFMAN, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires JUNE 30, 2000

DEPONENT BETSEY WRIGHT (Feb. 27, 1996) 2nd day

ERRATA

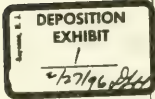
<u>PAGE</u>	<u>LINE</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON</u>
<u>13</u>	<u>15</u>	<u>"who she attended"</u>	<u>to "who attended"</u>	
<u>21</u>	<u>7</u>	<u>"watch these spin boys"</u>	<u>to "watch C-SPAN, boys"</u>	
<u>21</u>	<u>22</u>	<u>"Q"</u>	<u>to "MR. COHEN"</u>	
<u>25 35</u>	<u>2</u>	<u>"ask"</u>	<u>to "answer"</u>	
<u>35</u>	<u>4</u>	<u>"on our"</u>	<u>to "or their"</u>	
<u>50</u>	<u>8</u>	<u>"Fulbright"</u>	<u>to "Hernreich"</u>	
<u>66</u>	<u>4</u>	<u>"from this"</u>	<u>to "for this"</u>	
<u>82</u>	<u>5,22</u>	<u>"Bill"</u>	<u>to "Beryl [Anthony]"</u>	
<u>85</u>	<u>10</u>	<u>"Janice as"</u>	<u>to "Janice. As"</u>	
<u>85</u>	<u>11</u>	<u>"department"</u>	<u>to "department,"</u>	<u>(comma after department)</u>
<u>87</u>	<u>12</u>	<u>"tennis"</u>	<u>to ??? tennis is not correct: unclear what</u>	<u>word is correct</u>
<u>91</u>	<u>13</u>	<u>"Governor let"</u>	<u>to "Governor said let"</u>	
<u>99</u>	<u>6</u>	<u>"A"</u>	<u>to "MR. COHEN"</u>	
<u>139</u>	<u>11</u>	<u>"Director Staff"</u>	<u>to "Director, Staff"</u>	<u>(insert comma)</u>
<u>108</u>	<u>8</u>	<u>"make"</u>	<u>to "made"</u>	
<u>140</u>	<u>22</u>	<u>"we were told"</u>	<u>to "they were told"</u>	
<u>141</u>	<u>21</u>	<u>"houses we were"</u>	<u>to "houses were"</u>	

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DEPONENT BETSEY WRIGHT (Feb. 27, 1996) 2nd day CONTINUED

ERRATA

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ASSOCIATED PRESS

FAX TRANSMISSION COVER SHEET

TO: Betsey Wright

FAX: 638-7045

DATE:

FROM: Pete West

776 9400

~~Phone 202~~ ~~9400~~

DESK:

NO. PAGES

ENCLOSING THIS SHEET

DESCRIPTION:

ASSOCIATED PRESS

Betsey Wright

Ms Wright:

The Associated Press is preparing a story about the governor's office and its contacts with Dan Lasater and his firm in the mid-1980s.

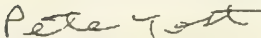
The story will refer to a note you sent to Gov. Clinton in May 1985 regarding the bid of the Hutton-Lasater-Raney group for financing the state police communications system.

Your note states: "Guv + we have real problem here since 'street talk' is that Lasiter put in unreasonably low bid knowing he can raise it once he gets it. I hope ASP bid experts reviewing everything." Clinton wrote a note on the document saying that Lasater should be told his bid must be met.

The story also will refer to a memo you wrote the governor stating the following: "Word I am picking up ... is that Knox intends to call a special meeting of his telecommunications study committee this week and that he is aiming for not letting a contract at all with investment firms. ... I have alerted Drake and suggested that they get an ASAP commissioner to set an appointment with Sen. Nelson ASAP." You ask the governor whether he has any other suggestions. The response: "+No+Governor can reason w/ him."

These and other documents I have reviewed outline substantially more involvement between the governor's office and Lasater's office than you and the Clinton campaign acknowledged in 1992 in response to a Los Angeles Times story.

If you wish to discuss this, I can be contacted at 1 202 776 9464.



Pete Yost
The Associated Press
2021 K St. N.W.

**DEPOSITION OF PAUL B. YOUNG, JR.
IN RE: S. RES. 120**

TUESDAY, FEBRUARY 27, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Deposition of PAUL B. YOUNG, JR., called for examination pursuant to notice of deposition, at 1:00 p.m. in Room 534 of the Dirksen Senate Office Building, before PATRICIA A. ZUBER, a Notary Public within and for the District of Columbia, when were present:

MICHAEL P. O'CALLAGHAN, Esq.
Majority Associate Special Counsel
MITCHELL FEUER, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

ALAN STRASSER, Esq.
Kutak Rock
1101 Connecticut Avenue, NW
Washington, DC 20036
On behalf of the Deponent.

CONTENTS

WITNESS

EXAMINATION

Paul B. Young, Jr.	
by Mr. O'Callaghan	5
by Mr. Feuer	115
by Mr. O'Callaghan	131
by Mr. Feuer	133
by Mr. O'Callaghan	150
by Mr. Feuer	157
by Mr. O'Callaghan	160
by Mr. Feuer	162

P R O C E E D I N G S

MR. O'CALLAGHAN: Good afternoon, Mr. Young. My name is Michael O'Callaghan. I'm an associate special counsel with the Special Committee. To my left is Mitchell Feuer who is counsel for Minority on the Banking staff.

This deposition is conducted pursuant to Senate Resolution 120. The Resolution establishes a Special Committee administered by the Banking Committee to conduct an investigation involving Whitewater Development Corporation; Madison Guaranty Savings & Loan Association; Capital Management Services, Incorporated; bond underwriting contracts between Lasater & Company and the Arkansas Development Finance Authority, and other related matters.

This deposition is in advance of public hearings which will likely occur in the last week or two. We're going to ask you a series of questions today, ask you to testify under oath. If you don't understand a question, please let either me or Mr. Feuer know; we'll be happy to rephrase the

4

question. If you need a break or you need to consult with counsel, please let us know; we'll be happy to accommodate you with that as well.

The stenographer is preparing a record of questions and answers. The deposition will be treated as committee confidential until the commencement of the hearings. Prior to the hearings, you'll be given an opportunity to review your transcript and also to make any corrections you feel are necessary on an errata sheet.

You may be represented by counsel today. Are you represented by counsel?

THE WITNESS: Yes, I am.

MR. O'CALLAGHAN: Could counsel please state your name and the name of your firm for the record.

MR. STRASSER: I'm Alan Strasser. My firm is Kutack Rock.

MR. O'CALLAGHAN: Objections to the form of questions will be noted for the record. Counsel may object on grounds of privilege or relevance; and the Committee Chairman may rule on objections where the

1 witness refuses to answer a question.

2 Could you please swear the witness.

3 Whereupon,

4 PAUL B. YOUNG, JR.

5 was called as a witness and, having first been duly

6 sworn, was examined and testified as follows:

7 EXAMINATION

8 BY MR. O'CALLAGHAN:

9 Q Please state and spell your full name for
10 the record.

11 A Full name is Paul B. Young, Jr. What else
12 do you want? Full name and what?

13 Q I've asked you to spell it, but I think
14 it's --

15 A P-a-u-l; B.; Y-o-u-n-g; Jr., J-r, period.

16

17

18 Q Did you speak with anyone, other than your
19 counsel, prior to this deposition about the
20 deposition?

21 A I've talked with those in our office that
22 had some acquaintance with the issues.

1 Q And who did speak with?

2 A Bob Snider would be one. And he would be
3 the principal one and probably one of the most
4 acquainted with what I think you-all have had me to
5 come talk about.

6 Q And did you speak with anyone else?

7 A A couple of other folks in our office, but
8 you know, very general, general terms.

9 Q Anything about the substance of what you
10 anticipated to testify about?

11 A No.

12 Q Outside of your company, did you speak with
13 anybody else?

14 A Friends and acquaintances who just have an
15 interest in knowing where I am today.

16 Q Did you speak with anyone by the name of
17 Michael Drake before coming here?

18 A No, I did not.

19 Q Anyone else that comes to mind that you
20 spoke to?

21 A No.

22 Q Just so you know, you have to articulate

1 your answers for the court reporter for the purposes
2 of the record.

3 A Sure.

4 Q Did you do anything to prepare for the
5 deposition today?

6 A I reviewed the information I had in our
7 files that we've maintained related to the Arkansas
8 State Police transaction that occurred in 1995.

9 Q Where are you currently employed?

10 A I'm currently employed with T.J. Raney &
11 Sons, which is a division of Morgan Keegan & Company,
12 and I work in Little Rock, Arkansas.

13 Q What's your business address?

14 A It is 100 Morgan Keegan drive, Suite 400,
15 Little Rock, Arkansas 72202.

16 Q What's your current position?

17 A Senior vice president.

18 Q How long have you been with the firm?

19 A I've been with the firm since 1983, so it's
20 almost 13 years. T.J. Raney & Sons was a separate
21 company before it became part of Morgan Keegan in
22 1989, so my service actually involves service with

1 T.J. Raney & Sons before it became part of Morgan and
2 Keegan, but in the same group doing almost the same
3 thing for almost 13 years.

4 Q Okay. Did you graduate from college?

5 A I did.

6 Q Where did you go to school?

7 A I graduated from Hendricks College in
8 Conway, Arkansas in 1971. Are you interested in
9 other education?

10 Q Yes, sir.

11 A I graduated from the University of Arkansas
12 law school in 1975, in Fayetteville. And that would
13 be the extent of my education.

14 Q What did you do before you went to work for
15 T.J. Raney in 1983?

16 A I was practicing as a CPA. I was with the
17 firm Peat Marwick Mitchell. At the time that was the
18 name of the firm, it's now KPMG. And I worked for
19 Peat Marwick from 1975 until 1983 before I went to
20 work for T.J. Raney.

21 Q You were doing legal work for them?

22 A No, I was an accountant. I was a tax

1 accountant. I'm also a CPA.

2 Q You're a CPA as well. Okay. During the
3 period 1982 through 1985, what position did you hold
4 at T.J. Raney?

5 A Well, none in 1982. I was still with Peat
6 Marwick at the time.

7 Q I'm sorry. 1938 through 1985.

8 A I was employed as a vice president, and
9 employed to work in the public finance department as
10 a public finance investment banker.

11 Q And were you located in Little Rock at that
12 time?

13 A Yes.

14 Q Okay. And during the time period I just
15 identified, 1983 through 1985, did you have a
16 supervisor?

17 A Did I have a supervisor? Yes, Bob Snider.

18 Q What was his position?

19 A His position during that period was the
20 manager of our public finance department.

21 Q Did you have anyone who reported to you?

22 A At that time, other than just occasional

10

1 secretarial types of assistance, no, I did not.

2 Q During that time period, how many people
3 were in the public finance division at T.J. Raney?

4 A Let's see. I would say -- you'll have to
5 give me a second to count heads here. Probably six
6 bankers and probably four support people; I think
7 that would be a good estimate.

8 Q What type of work did the public finance
9 section do?

10 A We were in the business of working with
11 issuers of public debt, primarily tax-free bonds, to
12 finance public projects and the like. We worked in
13 structuring those transactions that were ultimately
14 sold by our sales department, or in the event that we
15 served as a financial adviser, would be purchased by
16 other firms at competitive sales.

17 Q What were your primary responsibilities
18 during this time period?

19 A Primary responsibilities would be to work
20 on the transactions and structure them for those that
21 would be engaged to originate and complete. Also I
22 was -- would have to contact and keep up with

1 projects that were being discussed, prospective
2 projects that were being considered for financing,
3 contacting potential clients, staying in touch with
4 what opportunities might arise. That sort of thing.

5 Q During this time period, did you work on
6 any deals involving the Arkansas Housing Development
7 Agency or Arkansas Development Finance Authority?

8 A '83 through '85?

9 Q Yes, sir.

10 A ADFA?

11 Q Actually '83 through '86.

12 A In '86, I think I was involved in a
13 financing that ADFA did that was a pool type of
14 financing for public improvements, but I think that
15 was the only financing that I was really associated
16 with at ADFA during that time period. I really had
17 no involvement with their housing activities or
18 ADFA's general business, or with AHDA for that
19 matter.

20 Q Was Lasater involved in the project that
21 you just described?

22 A I don't think so. I think, at that time, I

1 think Lasater was probably out of business. I think
2 they'd been sold to another firm as I recall.

3 Q Was there a person at your firm that dealt
4 with the housing offerings that ADFA did?

5 A That would have been Bob Snider and a
6 fellow named Jim Fowler. Both of them covered
7 housing matters; Bob Snider primarily though.

8 Q Did you ever have any discussions with
9 either one of them with regard to the Collins, Locke
10 & Lasater's or Lasater & Company's participation in
11 housing offerings?

12 A Probably just only casual discussions just
13 to make me aware of what was happening, but I really
14 had no involvement in those transactions. So I had
15 no really -- no real occasion to get involved into
16 the details of those transactions or who was
17 involved.

18 Q Did you ever hear complaints about Lasater
19 & Company or Collins, Locke & Lasater being included
20 in any housing issuances?

21 A Complaints? By who?

22 Q By anyone you worked with.

1 A I don't think anybody that I worked with
2 complained about their participation. You know,
3 there may, just like there are in any public
4 financing where there's a group involved in doing a
5 financing, others that are not included might have
6 complained, but, you know, that's the only thing I
7 would be acquainted with.

8 Q During the time period 1983 through 1986
9 did you have -- let me -- I'll withdraw that.

10 During the period 1983 through 1986, are
11 you aware of any political influence that was brought
12 to bear to award ADFA or AHDA bond contracts to any
13 underwriting firms?

14 A I can't say that I am.

15 Q Have you ever heard that?

16 A Have I ever heard whether or not any
17 political influence has been applied to --

18 Q Yes, sir.

19 A Well, you know, I think those sorts of
20 things, those sorts of suggestions, I think are, you
21 know, made in public, in the press. And you know, I
22 hear that sort of thing suggested, you know,

1 occasionally, but, you know, I think that's, you
2 know, that's nothing new.

3 Q Other than press accounts, have you ever
4 heard reports that Lasater & Company was included in
5 a bond underwriting group as a result of political
6 pressure?

7 A You know, I think I've heard that some
8 people have suggested that, but you know, I can't
9 recall any specifics.

10 Q Do you recall where you heard it from?

11 A No.

12 MR. FEUER: Has Frank White raised that or
13 any others raised that in gubernatorial campaigns in
14 Arkansas?

15 THE WITNESS: About Lasater's inclusion?
16 You know, I think that the Stephens firm, you know,
17 has probably has, I think has probably complained or
18 complained back in that time about their inclusion in
19 ADFA accounts. I don't know when I became acquainted
20 with that, but I've heard that.

21 BY MR. O'CALLAGHAN:

22 Q Do you recall whether you had any

1 conversations with anyone at Stephens about that?

2 A About Lasater?

3 Q About Lasater's inclusion in ADFA bond
4 underwritings.

5 A I don't think I have.

6 Q Are you aware of any money laundering that
7 was associated with any ADFA or AHDA bond offerings
8 or underwritings?

9 A No, I'm not.

10 Q Did you attend any ADFA board meetings?

11 A When?

12 Q During the period '83 through '86.

13 A I think I probably did in connection with
14 the transaction I mentioned earlier. That would have
15 probably been in the latter part of 1986. And I
16 think I probably -- I may have occasionally attended
17 an ADFA meeting, you know, like when Bob Snider or
18 maybe Jim Fowler were unavailable, but just to make
19 sure that we were represented. I never had any
20 official thing to do in any of those meetings.

21 Q Are you familiar with a bond underwriting
22 that was undertaken in 1985 to provide capital for

16

1 the purchase of new police radio system for the state
2 of Arkansas?

3 A Yes.

4 MR. STRASSER: I'm going to object to
5 this. I assume you're going to ask him about the
6 police radio financing. I think this is beyond the
7 scope of the Committee's Resolution and is therefore
8 irrelevant.

9 MR. O'CALLAGHAN: Okay. Are you directing
10 the witness not to answer that?

11 MR. STRASSER: No, I'm not. I've objected
12 on the grounds that I stated.

13 MR. O'CALLAGHAN: Okay. And for the record
14 it's the Majority's position that the underwriting
15 contracts between Lasater & Company and the state of
16 Arkansas are relevant and within the scope of the
17 Resolution even though the Resolution states that it
18 is looking -- the language speaks, bond underwriting
19 contracts between Lasater & Company and the Arkansas
20 Development Finance Authority.

21 Do you understand that the bond
22 underwriting contract entered into between Lasater &

1 Company and the Arkansas State Police were
2 contemplated at the time of the writing of the
3 Resolution. And it's my understanding that the
4 Minority has agreed to allow questioning into this
5 area, as a result of discussions with members of the
6 Majority on this subject.

7 MR. STRASSER: Well, I understand that's
8 your position, and I will accept your representation
9 that that's what the Minority position is. But to my
10 mind, a simple reading of the Resolution shows that
11 this is outside of the scope of it. But do what you
12 want. After that, I'm not going to direct Mr. Young
13 not to answer the questions on those grounds.

14 BY MR. O'CALLAGHAN:

15 Q How are you familiar with the Arkansas
16 State Police radio bond underwriting?

17 A I was the representative for our firm who
18 was principally involved with the activities I
19 described earlier that were my job -- that is,
20 identifying the opportunity and getting hired and
21 ultimately structure the transaction.

22 Q Are you the person at your firm that first

1 identified the opportunity to participate in the
2 underwriting?

3 A It's my recollection that I am.

4 Q How did it first come to your attention?

5 A Back during 1984, a fellow named Frank
6 Surguine who is also in our office and I were working
7 on trying to identify opportunities for finance in
8 Arkansas, particularly having to do with criminal
9 justice facilities, jails. And we were talking to a
10 lot of people about that -- those issues. And it's
11 my recollection that, in the course of one of those
12 discussions that I had with a fellow named Bobby
13 Roberts who worked for Governor Clinton on his staff
14 and was involved with coordinating the state effort
15 having to do with new jails, I think he mentioned to
16 me that the State Police was looking at doing a
17 project like this. And that's how I first became
18 aware of it.

19 Q Do you recall when in 1984 this occurred?

20 A It would have probably been sometime in
21 October, November, something like that. I would
22 suspect November.

1 Q What did Mr. Roberts tell you about the
2 project that was being contemplating?

3 A He just mentioned that the State Police was
4 looking at building a new statewide radio
5 communications system. That was basically all he
6 mentioned to me.

7 Q Did he mention in terms of price how much
8 they were looking to spend or how much they
9 anticipated it would cost?

10 A No.

11 Q Did he provide you with any documents?

12 A No.

13 Q Where did the meeting occur, or the
14 conversation?

15 A I can't recall. It may have just been on
16 the telephone. I think it may have been -- it may
17 have occurred when I was just following up with him
18 having to do with our previous discussions. And you
19 know, he knew I was looking for opportunities. That
20 was part of my job.

21 Q Had you known him previously?

22 A No.

1 Q Was anyone else a party to the
2 conversation?

3 A No, I don't think so.

4 Q You mentioned that someone else you worked
5 with and I wonder if you could spell his name?

6 A Frank Surguine, S-u-r-g-u-i-n-e; Frank
7 Surguine.

8 Q After your conversation with Mr. Roberts,
9 what was the next thing you did in relation to the
10 police radio network?

11 A Well, the next thing that I have any
12 recollection or information about was a contact with
13 David Moseley, who was the fiscal officer at the
14 Arkansas State Police, simply to gather information.
15 And I think I actually had a meeting with him for
16 that purpose.

17 Q When did that meeting occur?

18 A That would have been sometime shortly after
19 my acquaintance with the opportunity. I think that
20 was sometime in November.

21 Q November?

22 A '94.

1 Q Did you go over to his offices to meet with
2 him?

3 A Yes, I did.

4 Q Where are those located?

5 A It's in west Little Rock on Natural
6 Resources Drive, as I recall.

7 Q Was anyone else in attendance at the
8 meeting?

9 A I don't think so.

10 Q What type of materials did he provide you
11 with at the meeting?

12 A I don't think he provided any materials. I
13 think he simply answered questions such as what's
14 going to be done, what amount's required, what's the
15 timetable -- those sorts of things.

16 Q Did he tell you what type of system the
17 police department was looking at purchasing?

18 A I think he probably did, you know.
19 Ultimately it was an 800 megahertz radio system and
20 I'm sure he probably described in general terms what
21 was going to be financed.

22 Q Did he describe the cost that they expected

22

1 to be associated with the purchase of a new system?

2 A I assume he did. I assume he did.

3 Q Did he mention whether he had been
4 contacted by any other financial firms?

5 A I don't recall, but you know, that would be
6 one of the questions I would have asked him, but I
7 don't recall what he would have said.

8 Q At this point had you spoken to anyone else
9 about your conversation with Mr. Roberts?

10 A I'm sure I probably mentioned it to Bob
11 Snider, and probably, possibly Frank Surguine.

12 Q Other than asking Mr. Moseley questions
13 during that meeting, did you provide him with any
14 ideas about what you thought would be good ways of
15 financing the project?

16 A I did send him some sort of
17 communication -- a letter, a follow-up letter. I
18 think it was sometime in January which I'm sure --
19 which I think documented probably some things that we
20 had discussed either then, or maybe in subsequent
21 conversations.

22 Q So between the meeting which you think is

1 around November and the letter you sent in January,
2 did you -- what type of work did you do with regard
3 to thinking of financing ideas, if any, with regard
4 to police radio underwriting?

5 A You know, I knew that they were looking at
6 the options of a bond financing or something
7 different, like a lease, and I'm sure I researched
8 some of the legal issues, talked to lawyers about
9 what they could do and what their options might be,
10 what legislation might have been required to permit
11 them to do one of those options, you know.

12 Bob Snider and I would have had discussions
13 about strategizing, about how we ultimately would
14 make a presentation in response to some sort of an
15 RFP, so we planned for that eventuality.

16 Q Had you hired a law firm at that point to
17 deal with this issue?

18 A No.

19 Q Did you speak with anyone in the governor's
20 office during this time period about possibility of
21 doing the financing for this?

22 A Bob Snider and I had a meeting with a

1 fellow named Sam Bratton who was one of the
2 governor's aides.

3 Q When did that take place?

4 A I think it was sometime in December.

5 Q What was discussed at that meeting --
6 actually before I ask you that, was there anyone else
7 in attendance other than Mr. Snyder?

8 A I don't think so.

9 Q What was discussed at that meeting?

10 A I don't recall the specifics of the
11 discussion, but you know, that would probably have
12 been just like most of the routine meetings that we
13 typically set up when we're trying to gather
14 information about a transaction. I'm sure it would
15 have been to get additional information from him that
16 he might have on the transaction, ideas that they
17 might have or issues, or information they might have
18 that could tell us what sort of choices were going to
19 be made about the financing options.

20 And I'm sure it was just an
21 information-gathering meeting, as well as making sure
22 that those that had some input or involvement with

1 the transaction would know that we were interested.

2 Q What was Mr. Bratton's position at the
3 time, do you know?

4 A I think that he was an aid to Governor
5 Clinton, and Bobby Roberts, the fellow I mentioned
6 earlier, had left the staff of the governor, I think,
7 to go back to, I think, the University of Arkansas at
8 Little Rock. Bobby Roberts was in charge of
9 coordinating criminal justice matters and Bratton may
10 have taken up that responsibility in the interim
11 before somebody else was assigned to that.

12 Q So did Mr. Roberts suggest to you that you
13 should talk to Mr. Bratton?

14 A I don't recall.

15 Q Do you know how --

16 A I don't know how we decided to visit with
17 him.

18 Q Did he give you input as to what the view
19 of the governor's office was with regard to financing
20 the system?

21 A I don't recall any specific things he said
22 about that. I'm sure he acknowledged that they were

1 looking at several options.

2 Q Did he mention any involvement of the
3 governor at this point?

4 A No.

5 Q Did you provide Mr. Bratton with any
6 materials at the December meeting?

7 A I don't recall.

8 Q Had you put together materials by December?

9 A I don't recall.

10 Q Did Mr. Bratton mention whether he'd spoken
11 with any other financial firms at that point?

12 A I don't recall.

13 Q Are you aware during December '84 whether
14 any other firms had expressed interest in being
15 involved in this?

16 A I think we knew that Stephens was following
17 the transaction, and I'm sure that we became
18 acquainted with what others were doing to follow the
19 transaction sometime during that time. I don't
20 remember when or how we became aware of that
21 information, but I'm sure we probably knew by then or
22 at some point in December that both E.F. Hutton and

1 Lasater were following the transaction.

2 Q Why do you think you knew by December that
3 you knew they were following the transaction?

4 A I know that sometime by -- I think, at
5 least as I recall the letter that I wrote to David
6 Moseley, I think acknowledged that we had by that
7 time developed a relationship with those two firms.
8 And we had a meeting sometime in December with
9 Lasater and Hutton to talk about the transaction and
10 how we might work together on the transaction.

11 Q Was that the first meeting you had with
12 those groups, with Hutton and Lasater?

13 A I think so, in person. There may have been
14 some preliminary discussions where we talked with
15 representatives of Hutton or Lasater about the
16 transaction, but I do not recall.

17 Q When was the first time that you contacted
18 other financial firms in relation to this prospective
19 project?

20 A I know that Bob Snider and I, before we got
21 together with Lasater and Hutton, contacted Stephens
22 and suggested that we work together on this

1 transaction, and that would have had to have been
2 before we talked to Lasater and Hutton.

3 Q And what was the result of that
4 conversation?

5 A They decided that they wanted to pursue the
6 transaction by themselves.

7 Q What was the first contact you made with
8 anyone at Lasater & Company?

9 A I --

10 MR. STRASSER: Are you directing this to
11 him personally?

12 MR. O'CALLAGHAN: To you personally at
13 first, yes.

14 THE WITNESS: I don't remember any contact
15 that I had with anybody at Lasater or Hutton about
16 the transaction before the time we had a meeting
17 together.

18 BY MR. O'CALLAGHAN:

19 Q Would anyone else have contacted them other
20 than you?

21 A I would -- I think Bob Snider must have
22 contacted the firms. He knew Lasater and Michael

1 Drake through AHDA or ADFA, and he also had an
2 acquaintance with E.F. Hutton because of some past
3 relationships. So he probably took care of or was
4 involved in the initial discussions with those two
5 firms.

6 Q So just so we're clear, you think
7 Mr. Snider initiated the contact with Lasater &
8 Company?

9 A I think so because I simply don't recall
10 how that developed.

11 Q Before the meeting that occurred in
12 December, did you have any contact with Mr. Drake at
13 Lasater & Company?

14 A I must have, at least to you know, having
15 to do with when we were going to meet and who was
16 going to be there, but I don't remember anything
17 else.

18 Q Do you recall why your firm contacted
19 Lasater & Company to participate in competing for the
20 underwriting contract for the radio system?

21 A You know, Lasater had been involved with
22 housing -- AHDA transactions. They were a local

30

1 firm, but, you know, had some credibility obviously
2 with state transactions. And I assumed that, you
3 know, that was the basis for the discussions that we
4 had with Lasater.

5 Q Do you recall telling anyone at Lasater &
6 Company why your firm had contacted them?

7 A No, I don't.

8 Q The explanation? And just so we're clear,
9 did your company contact Lasater & Company first or
10 did they contact you?

11 A I don't recall. I don't remember how that
12 occurred.

13 Q Do you have any recollection of a
14 conversation that you had with Mr. Drake telling him
15 that the reason T.J. Raney had contacted Lasater &
16 Company was because of the relationship that Dan
17 Lasater had with Governor Clinton? Let me ask you
18 that first.

19 A No, I don't.

20 Q Did you ever tell Michael Drake that T.J.
21 Raney approached Lasater & Company because Lasater &
22 Company, Mr. Lasater being good to Governor Clinton

1 when he's out of office in 1981 through 1982?

2 A No, I don't recall that.

3 Q Did you ever have any conversations with
4 Mr. Drake or anyone at Lasater & Company about
5 Mr. Lasater's relationship with the governor?

6 A You know, I think it was well-known that
7 Dan Lasater was a supporter of Governor Clinton, so
8 you know, I assumed that, at some point during our
9 working relationship, that may have been discussed,
10 but I don't recall any specifics.

11 Q Do you have a general recollection of
12 whether you ever brought that subject up?

13 A No.

14 Q In any conversations that you had with
15 anyone in the governor's office, did they ever
16 suggest -- did they suggest any other financial firms
17 that T.J. Raney should work with on securing an
18 underwriting contract for the police radio financing?

19 A Not that I recall.

20 Q Before the meeting in December between
21 people from T.J. Raney, E.F. Hutton and Lasater
22 Company; is that right?

1 A Uh-huh.

2 Q Before that meeting, how many contacts were
3 there between people in your company and people in
4 Lasater Company?

5 A I have no recollection. I simply can't
6 recall.

7 Q Just so we're clear -- I don't know if I
8 asked you this -- do you know who Michael Drake is?

9 A Yes, I do.

10 Q How do you know Michael Drake?

11 A I became acquainted with Michael Drake
12 working with Lasater on the State Police transaction.

13 Q Do you recall when you first met him?

14 A I do not recall when that might have
15 occurred, but I'm sure it was before the December
16 meeting.

17 Q Is that because you had had conversations
18 with him before this December meeting?

19 A What now?

20 Q You said you are sure it was before the
21 December meeting --

22 A I know I met him before the December

1 meeting, I simply don't recall when and under what
2 circumstances. I think I mentioned to you earlier
3 that occasionally I had covered an ADFA or AHDA
4 meeting for T.J. Raney. I think I at least did that
5 once before the time period in '85, you are
6 talking -- or '84. And I could have met him at that
7 time because I think he was covering AHDA for
8 Lasater.

9 Q Do you know how many contacts anyone from
10 your firm had with members of E.F. Hutton & Company
11 before the December meeting?

12 A No, I do not.

13 Q Who is the person at E.F. Hutton who
14 represented them?

15 A At the meeting?

16 Q Yes, sir.

17 A There was a fellow named Bernard Beal
18 there.

19 Q Can you spell that?

20 A Bernard is B-e-r-n-a-r-d. Beal is
21 B-e-a-l. And I think there may have been one other
22 person there from E.F. Hutton, but I do not recall

1 who that was.

2 Q And who was there from your company?

3 A Bob Snider and myself.

4 Q And from Lasater & Company?

5 A Michael Drake.

6 Q Did anyone else attend the meeting?

7 A I think David Menz was there.

8 Q Who is he?

9 A He's with -- he was, at the time, with the
10 firm Wright Lindsey & Jennings, but he now is with
11 the firm of Williams & Anderson. He ultimately
12 served as underwriter's counsel on the transaction.
13 Menz is M-e-n-z.

14 Q What was the purpose of the December
15 meeting?

16 A To discuss how we might work together in
17 pursuing this business.

18 Q Was there any discussion of any action
19 being taken by any other firms with regard to this
20 project?

21 A Any discussion of?

22 Q Any action being taken by other firms that

1 you're aware of.

2 A Well, I'm sure we discussed what other
3 firms would be proposing and try to be able to do the
4 transaction, and you know, what our competitive
5 strategy would be.

6 Q As of the December meeting with the other
7 members from the other underwriting firms and
8 Mr. Menz, how many meetings did you have with members
9 of the governor's staff?

10 A What was that question again?

11 Q Before the December meeting with the people
12 we just mentioned, how many meetings did you have
13 with members of the governor's staff?

14 A I don't think I had any others than those
15 that we've talked about, the meeting with Sam
16 Bratton.

17 Q The one meeting with Sam Bratton?

18 A That's right.

19 MR. STRASSER: He mentioned one meeting
20 with Roberts also.

21 MR. O'CALLAGHAN: Roberts? I'm sorry.

22 MR. FEUER: I believe Mr. Young said that

1 he probably spoke with Mr. Roberts over the
2 telephone.

3 MR. O'CALLAGHAN: Off the record.

4 BY MR. O'CALLAGHAN:

5 Q So the only communications you're aware of
6 are the ones you had with Bobby Roberts -- I'm sorry
7 what was his name?

8 A Robby Roberts and Sam Bratton.

9 Q Are you aware of any meetings that anyone
10 from Lasater & Company had with members of the
11 governor's staff before the December meeting?

12 A No, I'm not.

13 Q How about between members of the governor's
14 staff and anyone from E.F. Hutton?

15 A I have no recollection of that.

16 Q Was there anyone from the governor's staff
17 in attendance at the meeting?

18 A No, there was not.

19 Q Where was the meeting held?

20 A At Lasater's office.

21 Q Do you recall what floor?

22 A I think it was on the first floor.

1 Q First floor. Is it in a conference room or
2 office?

3 A It was kind of a conference room with some
4 office type characteristics. It was, as I recall,
5 right off their trading floor.

6 Q Who called the meeting?

7 A I don't recall who called the meeting, but
8 I'm sure we all mutually agreed to meet at the time
9 we met and where we met.

10 Q Was there an agenda that was used in the
11 meeting, or --

12 A Not that I recall.

13 Q -- a specified purpose for the meeting?

14 A Well, I think I mentioned earlier we were
15 going to get together and talk about how to pursue
16 this transaction and how we might work together. I
17 think that was the nature of the meeting.

18 Q At this point did Mr. Drake or anyone at
19 Lasater & Company relate to you any conversations
20 that Mr. Lasater might have had with the governor
21 with regard to the police radio financing?

22 A I have no recollection of that.

1 Q I'd like to show you a document Bates
2 stamped DKSX 017877 through 017893. I'll give a copy
3 to your counsel.

4 I'm going to ask you a very general
5 questions about it. I'm not going to ask you about
6 the substance of it.

7 Take a moment to look at it and I'm going
8 to ask you if you've seen it before.

9 (Witness reviewed the document.) Do you
10 recall ever seeing the document I just showed you
11 before?

12 A No, I do not.

13 Q Are you aware of any draft legislation that
14 was put together to enable the financing for the
15 police radio system that contemplated using Arkansas
16 Development Finance Authority to do the financing?

17 A I don't recall any one that involved ADFA.
18 You know, I seem to recall one that involved a
19 revenue bond structure that would involve an issuance
20 of bonds by the State Police Commission, but I don't
21 issuance of bonds by the State Police Commission but
22 I don't recall this legislation or anything that

1 would have involved ADFA and the State Police.

2 Q Okay. Thank you. Okay.

3 Prior to your December meeting with the
4 members of the other underwriting firms and Mr. Menz
5 from Wright, Lindsey & Jennings, had you seen any
6 drafts of legislation that were put together for
7 possible legislation for authorizing the financing of
8 a police radio system?

9 A Yes, I had.

10 Q And where had you seen those?

11 A I don't recall how I obtained the
12 legislation. It's possible I could have gotten that,
13 you know, through David Moseley. It's possible I
14 could have seen a copy of that from Sam Bratton. I
15 just simply don't recall how I obtained a copy, but I
16 do know that I saw a draft of a piece of legislation
17 that would have involved that revenue bond financing
18 that I think the State Police Commission would have
19 been the issuer.

20 Q Okay. You believe you saw it before the
21 December meeting?

22 A I feel -- I think so.

1 Q Okay. I'd like to show you another
2 document, Bates stamps DKS N 017979 through 017993.
3 And I'm going to ask you if you've ever seen that
4 before. Take a minute to look at it.

5 (Witness reviewed the document.)

6 I'll identify it for the record. It
7 appears to be a draft of a piece of legislation which
8 is entitled "An act authorizing the issuance of
9 revenue bonds by the Arkansas Police Commission for
10 the financing of the cost of communications equipment
11 for the department of Arkansas State Police providing
12 for the payment and security of such bonds and
13 further purposes."

14 In top left portion of the first page is
15 the date 11/19/84. And then there is some
16 handwritten notes that appear on the top of the
17 page.

18 A This appears --

19 MR. STRASSER: He hasn't asked you a
20 question. He asked you had you seen it before.

21 THE WITNESS: This appears to be the
22 legislation I was referring to in my earlier answer.

1 BY MR. O'CALLAGHAN:

2 Q Do you recognize the handwriting that
3 appears on the top of the document?

4 A I do not.

5 Q Looking at the date on the document,
6 11/19/84, does that help you pin down when you might
7 have first seen a copy of the legislation, the draft?

8 A It must have been after 11/19/84 obviously
9 because I mentioned before the December meeting. So
10 it would have been sometime during that time frame.

11 Q And you believe your meeting with
12 Mr. Bratton took place in November?

13 A I think that's correct. I think it would
14 have been after the meeting with David Moseley.

15 Q Do you recall whether Mr. Bratton discussed
16 any drafts of legislation that were prepared?

17 A I do not. As I said earlier, it's possible
18 that he shared this with us. I don't recall.

19 Q Do you recall at any time whether a law
20 firm was hired to assist in drafting legislation to
21 authorize the issuance of the revenue bonds for the
22 State Police Commission?

1 A Hired by who?

2 Q By anyone that you know of.

3 A Well, during 1985, the spring of '85,
4 during that legislative session, the Mitchell firm
5 was working with our group and was involved in
6 drafting the legislation that was ultimately enacted
7 to authorize the transaction. It's my recollection
8 that the firm Friday, Eldredge & Clark probably
9 prepared this legislation. And I don't know whether
10 or not they were engaged by anybody or who they might
11 have been working with.

12 It's not unusual for a law firm to get
13 involved with drafting legislation to authorize a
14 transaction, obviously ultimately hoping to be
15 involved with the financing in some form or fashion,
16 but without any specific engagement.

17 Q Okay. Was the Mitchell firm hired by any
18 specific firm that you worked with? Who paid them?

19 A They were engaged by Lasater and it's my
20 recollection that Lasater and -- Lasater had gotten
21 them involved with working with our group and had
22 engaged them to work on drafting the legislation.

1 And in that capacity, for our group, they in effect
2 would have been working for the entire group.

3 Q Did they coordinate their efforts with the
4 governor's office?

5 A The Mitchell --

6 MR. STRASSER: Who?

7 MR. O'CALLAGHAN: The Mitchell firm.

8 MR. STRASSER: You are asking if he knows
9 that?

10 MR. O'CALLAGHAN: Yes.

11 THE WITNESS: I don't recall what they
12 might have done or how they would have coordinated
13 legislation. I do remember meetings that I was
14 involved with during the course of legislative
15 process, and I'm sure there were representatives of
16 the governor in attendance at those meetings.

17 BY MR. O'CALLAGHAN:

18 Q And were these meetings specifically about
19 the proposed legislation, or did it also involve
20 talking about specifics of the financing?

21 A Well, I think we only talked about the
22 financing as related to the legislation, but during

1 probably March, when I think the legislation was
2 being considered by the legislature, the principal
3 discussion of any meetings that we might have had
4 would have had to do with how the legislation needed
5 to be structured or drafted to properly facilitate
6 the financing.

7 Q How many meetings would you say you were
8 involved with during the legislative session?

9 A I don't recall. I do remember one at the
10 latter part of the time when the legislation was
11 being considered by the legislature. I remember
12 having one meeting at the capitol that I think a
13 representative of the Mitchell firm was in attendance
14 on.

15 Q Would that have been a woman by the name of
16 Anne Ritchey?

17 A Yes.

18 Q Is she the person at the firm who primarily
19 did the work?

20 A She and a fellow named John Selig, I think
21 I would consider would have done the major work on
22 the transaction.

1 Q She was at the meeting at the capitol?

2 A I think so.

3 Q Who else was there?

4 A Oh, there probably was somebody there
5 from -- you know, Michael Drake may have been there.
6 I think there was a fellow that was a staff person,
7 but was pretty intimately involved in legislation
8 that was enacted. And, you know, he kind of knew the
9 ins and outs of how things got done, what was
10 preferred and what was not workable, and I don't
11 recall his name. I think he's since deceased. He
12 was kind of an old hand that knew how to get things
13 worked through the legislature.

14 Q What staff was he on?

15 A I think he worked for legislative counsel
16 as I recall.

17 Q Was there anyone from the governor's office
18 there?

19 A I don't recall.

20 Q Do you know a woman by the name of Betsey
21 Wright?

22 A I know who Betsey Wright is. I'm not

1 personally acquainted with her. I've never met her.

2 Q Do you recall whether Sam Bratton was
3 there?

4 A I do not recall. He certainly may have
5 been. You know, I would think that somebody from the
6 governor's office might have been there because the
7 governor introduced and sponsored this legislation;
8 he was keenly interested.

9 Q Where was the meeting held?

10 A It would have been in the capitol building.

11 Q At anyone's specific offices?

12 A I don't remember.

13 Q Are you aware of any efforts taken by any
14 other financial firms in recommending potential
15 authorizing legislation for this project?

16 A No, I'm not. Unless some other firm was
17 involved with this, and I don't have any specific
18 knowledge.

19 Q You are referring to 17979 --

20 A Yes.

21 Q -- 11/19 draft I showed you?

22 A Right. There may have been another firm

1 that had this drafted or was involved in this in some
2 way, but I don't have any specific knowledge of that.

3 Q Did the governor attend any of the meetings
4 that you had with -- during the legislative session
5 as part of this?

6 A No, he did not.

7 Q Did you ever attend any meetings where he
8 was in attendance?

9 A No, I did not.

10 MR. STRASSER: Can we take a break here?

11 MR. O'CALLAGHAN: Sure.

12 (Recess.)

13 MR. O'CALLAGHAN: Could you read back my
14 last question and answer.

15 (The reporter read the record as requested.)

16 BY MR. O'CALLAGHAN:

17 Q Other than the meeting in March, which you
18 identified at the capitol and you said there may have
19 been people from the governor's office, are you aware
20 of any meetings that Michael Drake had with anyone in
21 the governor's office?

22 A No, I am not.

1 Q Did he ever tell you that he met with
2 people there?

3 A I don't recall.

4 Q You had mentioned that you had a number of
5 meetings during the legislative session with regard
6 to the financing for the radio system. Where did
7 those meetings typically take place, if there was a
8 typical place for them to occur?

9 A Well, I'm not sure I said that there were a
10 number of meetings. If I suggested that, I only
11 meant to say that we probably had more than one
12 meeting. And I just don't recall where those might
13 have occurred.

14 I just simply have a specific recollection
15 about one meeting about the legislation occurring at
16 the capitol, that I've already described.

17 Q And the meeting had you with Mr. Moseley,
18 did that occur before or after the meeting you had --
19 actually did you meet with Mr. Moseley or did you
20 just send a letter to him?

21 A I met with him shortly after I became
22 acquainted with the proposed transaction.

1 Q And then after that, you had a meeting in
2 December which involved the different members of
3 financial firms; is that right?

4 A Right.

5 Q Other than the meeting you had with
6 Mr. Moseley, did you have any other meetings with
7 anyone from the State Police Commission?

8 A I don't recall specifically, but -- when
9 they might have occurred, but I know that I had
10 meetings from that time until the transaction was
11 completed, with Colonel Goodwin, another fellow that
12 was on his staff that was working on the transaction
13 named Major Tyler -- Major Jim Tyler. But those
14 would be the principal people I met with that worked
15 for the State Police, and I at least contacted one of
16 the commissioners.

17 Q Who was that?

18 A Fellow named Chester Hines. He was on the
19 commission. He was a fellow from Pine Bluff.

20 Q Is that where you're from?

21 A Yes.

22 Q Did you have any meetings with anyone from

50

1 the State Police before -- before I ask that, am I
2 right in that T.J. Raney Hutton and Lasater were
3 eventually awarded the contract for the police radio
4 underwriting?

5 A That's correct.

6 Q Prior to the State Police Commission voting
7 to award that to the Raney/Lasater/Hutton group, did
8 you have any meetings with the State Police?

9 A Other than what I just mentioned?

10 Q Yes.

11 A Meetings, I don't believe I did. I did
12 meet with Johnny Mitchum. I did meet with Johnny
13 Mitchum.

14 Q And he was one of the commissioners?

15 A He was one of the commissioners.

16 Q When did you meet with him?

17 A It would have been before the meeting where
18 we made our presentation.

19 Q Was that when you made the final
20 presentation with three of the firms?

21 A Right.

22 Q On May 10th?

- 1 A Right.
- 2 Q How far in advance of that meeting?
- 3 A I don't recall.
- 4 Q Do you recall whether it was within a week
- 5 of the meeting, was it right before you went in?
- 6 A I don't recall.
- 7 Q Where did you meet with him?
- 8 A Who?
- 9 Q I'm sorry. Where did the meeting take
- 10 place?
- 11 A Where did the meeting take place with
- 12 Mr. Mitchum?
- 13 Q Yes, sir.
- 14 A I think it occurred at the Excelsior Hotel,
- 15 one of the downtown hotels in Little Rock.
- 16 Q Where exactly in the Excelsior, was it in a
- 17 conference room?
- 18 A I think it was in his hotel room.
- 19 Q Was anyone else at the meeting?
- 20 A A fella named Jack Meyers.
- 21 Q Who is Mr. Meyers?
- 22 A He is an actuary.

- 1 Q What was the purpose of the meeting?
- 2 A Simply to discuss the merits of our
- 3 proposal, but also they shared with me an analysis
- 4 that Mr. Meyers had prepared of the financial
- 5 characteristics of each of the proposals, present
- 6 value calculations and such, that ultimately were
- 7 presented at the commission meeting by Mr. Mitchum.
- 8 Q And who called the meeting?
- 9 A Who called what meeting?
- 10 Q With Mr. Mitchum and Mr. Meyers.
- 11 A I don't recall. I'm sure I may have talked
- 12 with -- as I mentioned, I talked with Chester Hines
- 13 and I may have had some telephone contact with, you
- 14 know, one or more of the other commissioners. And I
- 15 think I also had some kind of conversation with
- 16 Johnny Mitchum.
- 17 And I'm sure that I probably expressed an
- 18 interest in talking with him, just to make the merits
- 19 of our presentation known to him. And I don't recall
- 20 how we ended up getting together. It may have been
- 21 at his suggestion at that time. It may have been in
- 22 town. I don't really recall how it all got set up.

1 Q Is he from Little Rock?

2 A He is from Batesville.

3 Q Do you recall whether he was in town for a
4 commission meeting?

5 A I don't recall. I don't recall.

6 Q I'd like to show you a document which bears
7 the Bates stamps DKSJ 027168 through DKSJ 027184.
8 Take a moment to look at it. I'm going to ask you if
9 you've ever seen it before.

10 (Witness reviewed the document.)

11 A This appears to be the analysis --

12 Q Okay. Go ahead, I'm sorry.

13 A This appears to be the analysis that
14 Mr. Meyers prepared.

15 Q What was discussed at the meeting that you
16 had with Mr. Mitchum and Mr. Meyers?

17 A They showed me this analysis, and I think
18 they wanted to know my reaction and, you know,
19 whether or not I agreed with the analysis.

20 Q And what did you tell them?

21 A Actually, as I recall, I told them I didn't
22 think it quite gave our proposal as much of the

1 beneficial analysis that it should have had, and I
2 thought that really, on a relative basis, our
3 proposal was actually better than what these numbers
4 showed.

5 Q And did they ask you to provide information
6 that would show that?

7 A I don't -- I think we just discussed it in
8 general terms.

9 Q Do you know if this analysis is the
10 analysis that was shared with the commissioners,
11 helping to make the decision on which firm to choose
12 for the underwriting project?

13 A It appears to me to be the analysis that
14 was presented.

15 Q Do you recall whether any additional
16 attachments were included in the analysis that was
17 given to the commissioners?

18 MR. STRASSER: You want him to look through
19 every page? You are asking him to compare this to
20 another document that he doesn't have in front of him
21 that's a document that he saw some years ago.

22 If you want him to go through it page by

1 page and see if he now has a present memory of
2 whether this analysis which bears some date in May of
3 '85 is the one either that he saw in this meeting
4 with Mr. Mitchum or that was eventually presented to
5 the commission, you go right ahead and ask him that,
6 but I doubt that that answer is going to be worth
7 very much.

8 You are going to ask him if this is the
9 entirety of a proposal he remembers seeing 12 years
10 ago?

11 MR. O'CALLAGHAN: Yeah, that's the
12 question.

13 MR. STRASSER: Okay. Go ahead.

14 THE WITNESS: I do not recall if there were
15 any additional attachments or whether this is the
16 complete presentation.

17 BY MR. O'CALLAGHAN:

18 Q Other than Mr. Mitchum, Mr. Myers and
19 yourself, was anyone else in attendance at the
20 meeting at any time?

21 A I don't believe so.

22 Q I'd like to direct your attention to the

1 top of the first page. It's somewhat difficult to
2 read. It appears to be dated, that says May 9th,
3 1985. If you look at page 27171, it's a little
4 clearer.

5 A Okay.

6 Q Does that refresh your recollection as to
7 when the meeting occurred?

8 A Well, it must have been on or after May
9 9th. I don't recall specifically.

10 Q And do you recall that the meeting of the
11 police commission, where they voted on which firm to
12 award the contract to, occurred on May 10th, 1985?

13 A I didn't recall that that was the date,
14 but --

15 Q I may have something that would help.

16 A You know, let me correct something. You
17 know, it's possible, and this occurs in a number of
18 presentations I do, we'll do one draft of something
19 and then do another draft at a subsequent date. So I
20 don't think that, just by looking at the date on this
21 presentation, I can assume that the meeting I had was
22 on or after May 9th --

1 Q Okay.

2 A -- because there may have been an earlier
3 presentation that I saw that, you know, was just like
4 this but could have been dated earlier.

5 Q Okay. Looking at this with the date May
6 9th, I'd like to show you another document Bates
7 stamped DKSJN 027189 through 27191. A copy for you
8 and your counsel.

9 (Witness reviewed the document.)

10 A Is there a question?

11 MR. STRASSER: Give me a chance to read
12 it.

13 (Pause.)

14 Okay. Go ahead.

15 BY MR. O'CALLAGHAN:

16 Q The document I just showed you reads "A
17 special meeting of the Arkansas State Police
18 Commission was held on May 10, 1985 in the boardroom
19 of Arkansas State Police administrative headquarters,
20 3 Natural Resources Drive, Little Rock."

21 After reviewing this document, does it
22 refresh your recollection as to when the meeting of

1 the State Police Commission occurred where they voted
2 on which underwriter or underwriting group to choose
3 to finance the police radio network?

4 A It appears to have been on May 10th.

5 Q After looking at the minutes and the
6 analysis which I just showed you which has a May 9th
7 date on it -- that's the document Bates stamped DKSJN
8 027168 -- do you recall whether you met with
9 Mr. Mitchum and Mr. Meyers the day before the meeting
10 where they voted on the underwriters to provide the
11 financing services for the police radio network?

12 A I don't recall whether it was the day
13 before. It may have been.

14 Q Okay. During your meeting with Mr. Mitchum
15 and Mr. Meyers, did Mr. Mitchum express to you
16 whether he had a preference for any of the
17 underwriting firms that made proposals to the
18 commission?

19 A Well, I think that his calculation had
20 indicated that our proposal was the best
21 presentation, so I think he felt like, as stated in
22 the minutes to the meeting, we had the best deal.

1 Q But during the meeting you had with him at
2 the Excelsior, did he tell you that?

3 A I think that was -- I think he did indicate
4 that we had the best deal.

5 Q Did he indicate whether other members of
6 the commission were in agreement with him?

7 A I don't have any recollection that he had
8 discussed this with anybody else on the commission.

9 Q Had discussed the analysis?

10 A Right.

11 Q Do you know whether he indicated to you
12 where other members of the commission were leaning
13 toward, on which firms to choose for the underwriting
14 contract?

15 A I don't recall that he did.

16 Q Prior to dealing with Mr. Mitchum with
17 regard to this project, had you known him previously?

18 A No, I had not.

19 Q How about Mr. Meyers?

20 A Jack Meyers and I go to the same church,
21 and I do not recall whether or not we were acquainted
22 before this meeting. I don't think we were.

60

1 Q Do you know whether during this time period
2 Mr. Mitchum knew Mr. Lasater?

3 A I have no knowledge of his relationship or
4 any acquaintance with Lasater.

5 Q How about Mr. Meyers?

6 A Same for him. I have no acquaintance or
7 knowledge of his relationship, if any, with Dan
8 Lasater.

9 Q During this meeting, did he tell you that
10 he was going to make a recommendation to the board
11 that they accept the Raney/Lasater proposal?

12 A I don't recall whether he specifically said
13 that, I don't recall the specific words, but I think
14 the gist of his presentation was that he was going
15 to.

16 MR. O'CALLAGHAN: Okay.

17 (Discussion off the record.)

18 BY MR. O'CALLAGHAN:

19 Q Okay. I'm going to go back on the record.
20 I just want to take a step back and ask you some, ask
21 you to identify a couple of documents. Take you back
22 to January '85; you mentioned you'd sent a letter to

1 Mr. Moseley.

2 I show you a document which bears the Bates
3 stamp DKS N 017938 through 17940. And it's a letter
4 on T.J. Raney & Sons, Inc. letterhead, dated January
5 4th, 1985, addressed to Mr. David Moseley. "Proposed
6 acquisition of new radio communications equipment.
7 \$22 million anticipated cost." It says "Dear David,
8 over the past few months we have been discussing the
9 financing options available for the above project.
10 You've asked me to provide a summary of those options
11 for use in making a presentation to the council next
12 week. On behalf of T.J. Raney & Sons, Inc., Lasater
13 & Company and the E.F. Hutton Company, Inc., we are
14 pleased to provide the following information."

15 MR. STRASSER: Is there a question?

16 MR. O'CALLAGHAN: I'm going to ask him is
17 this the letter that he sent to Mr. Moseley he
18 testified about earlier.

19 THE WITNESS: Yes, it is.

20 BY MR. O'CALLAGHAN:

21 Q Do you recall Mr. Moseley requesting that
22 you provide a summary of financing options available

62

1 for the police radio project?

2 A I don't recall a specific request, but it
3 appears from the letter that he must have asked for
4 something like this.

5 Q Do you know whether he requested possible
6 financing options for the police radio project from
7 other financial firms?

8 A I have no knowledge of whether or not he
9 did.

10 Q Okay. Thank you.

11 Are you aware of when the State Police
12 first publicly announced what alternatives it was
13 considering to use for purchasing the communications
14 system?

15 A Am I aware of when?

16 Q Yes, sir.

17 A No, I don't have specific recollection of
18 when they announced that.

19 Q Do you recall that they did make an
20 announcement to that effect?

21 A That -- I'm sorry?

22 Q With regard to what financing alternatives

1 they were considering.

2 A I don't recall what was announced.

3 Q Okay. I'd like to show you a document
4 Bates stamped DKSX 027486 which reads "State Police
5 director lists alternatives to purchasing
6 communications system." I'll give you a chance to
7 read through that.

8 (Witness reviewed the document.)

9 It's dated 1/9/85 as it was produced to the
10 Committee and it says "Gaz," which I believe is
11 Arkansas Gazette.

12 (Witness reviewed the document.)

13 After reviewing this newspaper clipping,
14 does it refresh your recollection whether or not the
15 State Police publicly announced what alternatives it
16 was considering for purchasing a communications
17 system?

18 A Well, it appears that it listed -- it
19 occurred sometime in January of 1985.

20 Q Were you aware of that when that happened,
21 do you remember?

22 A I think the letter that I wrote

1 contemplated that Mr. Moseley or the State Police
2 were going to use some information they gathered in
3 presentation to the legislative council. So this may
4 have had something to do with that presentation.

5 Q Do you recall the first time that your
6 group made a proposal to the State Police with regard
7 to the financing structure you could offer?

8 A I think we provided a written proposal in
9 February of 1985, a preliminary proposal.

10 Q Okay. I'd like to show you a document
11 bears the Bates DKSX 017894 through DKSX 017913.

12 (Witness reviewed the document.)

13 Does the document I just showed you appear
14 to be a copy of the proposal that you sent to the
15 State Police?

16 A Yes.

17 Q Was that proposal solicited?

18 A I don't recall. I don't recall whether it
19 was solicited or not.

20 Q Okay. The second page of the document I
21 just showed you has signature spots for Paul B.
22 Young, Jr., Stephen Claiborne and Michael Drake. And

1 signatures don't appear above them.

2 Do you recall whether the one you sent in
3 had signatures or not?

4 A I believe it would have. I'm sure it did.

5 Q So the proposal that you sent on February
6 25th, would you have considered that a formal
7 proposal, do you recall?

8 A I think it was a description of a concept
9 that we had in mind. And I think in the earlier
10 letter, I had said that we would send something that
11 laid out the concept we had in mind, and this must
12 have been what we had committed to doing.

13 Q Who put this document together?

14 A The document was actually put together by
15 E.F. Hutton.

16 Q Put together by Mr. Claiborne?

17 A No, I think it was put together by people
18 in their New York office.

19 Q Do you know who was involved in putting it
20 together?

21 A I think probably one that was principally
22 involved was a woman named Laurel Esterlein.

1 Q Do you know how to spell her last name?

2 A I think it's E-s-t-e-r-l-e-i-n.
3 Laurel,-e-l.

4 Q I'd like to direct your attention to the
5 third paragraph of the first page. It reads "We have
6 of necessity made certain assumptions in order to do
7 this preliminary analysis of the financing. These
8 assumptions are set forth in the following pages.
9 Based upon these assumptions subject to additional
10 facts which are learned or developed, and based upon
11 current market conditions, the financing we propose
12 provides for principal and interest payments of
13 approximately approximate \$3 million per year,
14 substantially less than the current annual revenues
15 from driver's license fees, at an effective cost of
16 borrowing at 4.7 percent per year."

17 Do you recall how that effective cost of
18 borrowing was arrived at?

19 A I think it was, that was an internal rate
20 of return calculation.

21 Q And how is an internal rate return
22 calculation done?

1 A That is the interest rate that is
2 required -- discount rate that's required to discount
3 future cash flows to current present value amount.

4 Q Does that fluctuate with different interest
5 rate environments?

6 A Well, the future cash flows are set in a
7 internal rate of return calculation, and the up-front
8 money that you're comparing those future cash flows
9 is set by whatever assumptions you use to determine
10 those amounts, but then the interest rate would be a
11 fixed rate that would be required to discount the
12 future cash flows to the current PV amount.

13 Q Do you recall whether you got any response
14 from the State Police after you sent this proposal
15 in?

16 A I don't recall what any response might have
17 been.

18 Q Did they give you any comments on it?

19 A I don't recall.

20 Q Did you have any conversation with anyone
21 at the State Police about the proposal?

22 A I don't recall.

1 Q Are you aware of whether members of Lasater
2 & Company and the E.F. Hutton Company gave a
3 presentation in or around January 10th, 1985 to the
4 governor, members of the governor's office with
5 regard to financing structures and investment banking
6 services that they were proposing to do for the
7 state?

8 A No.

9 Q You testified earlier about a meeting that
10 occurred in March of 1985 at the state capital
11 building. And I asked you if you recalled who
12 attended. I've got a document, a one-page document.
13 This is some handwritten notes. It's got notation
14 3-4 in the upper left-hand corner and lists a number
15 of names. And it lists some information about, I
16 think, about a possible financing.

17 Why don't you take a quick look at that and
18 let me know when you are finished reading it.

19 (Witness reviewed the document.)

20 A I've read it.

21 Q The first question, have you seen this
22 document before?

1 A No, I have not.

2 Q Some names are listed on the top of the
3 page which seems to indicate people were in
4 attendance at a meeting. It says "Paul Young, M.
5 Drake" --

6 MR. STRASSER: It doesn't indicate any such
7 thing. There are some names listed on the page.
8 This is somebody's notes. They're obviously not his
9 notes. He's never seen it before. You can read
10 whatever you want to into this document, but it
11 doesn't say this is a list of people at a meeting.

12 BY MR. O'CALLAGHAN:

13 Q Okay. Do you recall being at a meeting in
14 March of 1985 that involved Michael Drake, John
15 Selig, an individual by the name of Mahlon, Joe and
16 Mike G.?

17 A No.

18 Q Are you familiar with a man by the name of
19 Mahlon?

20 A I would think that might have been Mahlon
21 Martin, who was --

22 Q Who is Mahlon Martin?

1 A He was, at the time, the director of the
2 department of finance administration.

3 Q Did he attend the March meeting that you
4 spoke about earlier which occurred in the capitol?

5 A Not to my recollection. I think I
6 mentioned that there was another fellow representing
7 the legislative council there. And as I recall, the
8 meeting I referred to occurred in the late stages of
9 the passage of the legislation. I don't have any
10 recollection of a meeting with Mahlon Martin.

11 Q Okay. Thank you.

12 Do you remember any meetings you had in
13 early March of that year that included Michael Drake
14 and John Selig?

15 A I don't remember any specific meetings, but
16 I'm certain that, you know, we would have had
17 meetings, I would have had meetings with Michael
18 Drake during that time. And John Selig was with the
19 Mitchell firm, and he, as I mentioned earlier, was
20 involved with Anne Ritchey on this legislation.

21 Q Was Sam Bratton in any of those meetings?

22 A I do not recall.

1 Q Do you recall attending a meeting of the
2 State Police Commission in or around April 4th, 1985?

3 A I don't have any specific recollection of
4 that meeting.

5 Q I show you copies of a minutes of the
6 Arkansas State Police Commission meeting dated April
7 4th, 1985. Take a moment to review it. I direct
8 your attention to portion that reads "others
9 attending." I'll ask you some specific questions
10 about the third paragraph up from the bottom on page
11 27584.

12 (Witness reviewed the document.)

13 The Bates numbers on the document I just
14 provided to you are DKS N 027582 through 27586. After
15 reviewing this document, does it refresh your
16 recollection as to whether you attended a meeting of
17 the State Police Commission on April 4th, 1985?

18 A Well, it appears that I did.

19 Q Okay. And on the first page under the
20 section which says "others attending," among other
21 people listed it reads representatives from Lasater &
22 Company, E.F. Hutton company, and T.J. Raney & Sons,

72

1 Mr. Michael Drake, Ms. Anne Ritchey, Mr. Bill
2 Woodyard, Mr. Paul Young and Mr. Robert Brown.

3 Do you recall whether you were invited to
4 attend this meeting?

5 A I don't recall whether we were invited or
6 not; no, I don't.

7 Q Do you recall attending this meeting?

8 A I don't have a recollection of being in
9 attendance at the meeting, but after reviewing the
10 minutes, it appears that I was there.

11 Q Did you attend many commission meetings?

12 A I'm not sure I understand what you're --
13 "many," one, two?

14 Q Had you been to any previous to this?

15 A I may have, but, you know, whenever I'm
16 following a transaction with the hopes of being
17 engaged to work on it, it's pretty standard routine
18 practice to go to public meetings that are held to
19 make sure that, you know, everybody understands we're
20 interested and to gather information.

21 And it appears here that the legislation
22 had recently been enacted, and I think I'd mentioned

1 earlier that we had been instrumental in helping
2 draft the legislation and getting it passed.

3 Q I can represent to you that the legislation
4 was actually signed the same day, on April 4th, by
5 Governor Clinton. Does that help refresh your memory
6 of going to the meeting for the State Police
7 Commission?

8 A No.

9 Q Okay. I'm going to read a portion out of
10 page 27584. It's the third paragraph underneath the
11 heading, "State Police Communications Act." It reads
12 "The commission also has the authority under the Act
13 to employ attorneys, accountants, underwriters and
14 financial advisers as may be necessary in their
15 judgment, and set their fees, but the commission
16 feels that in-house expertise should be utilized
17 whenever possible. The Act will also allow the
18 commission to proceed without a hearing to normal
19 state processes, but prior to any obligation being
20 incurred by the commission, any contract agreement or
21 proposal must be submitted to the communications
22 study committee and legislative council for their

1 review.

2 "Recommendation was made that a financial
3 team be selected as soon as possible so that they may
4 be involved in the negotiations with Motorola. After
5 a lengthy discussion between members of the
6 commission, Mr. Ed Erxleben and Mr. Doug Meadows of
7 state purchasing and representatives of several
8 financial firms concerning procedures to follow
9 relating to the acquisition and financing of the
10 communications equipment, the commission agreed to
11 begin immediately the process of selecting a
12 financial institution to handling the financing."

13 Do you recall engaging in a conversations
14 about selecting -- let me withdraw that.

15 Do you recall engaging in conversations at
16 a State Police Commission meeting where the
17 discussion was held with regard to choosing a
18 financial institution to handle the financing of the
19 State Police radio system?

20 A Are you asking if I said anything at this
21 meeting?

22 Q The first question, did you engage in

1 discussions of that nature?

2 A I don't recall any specific thing that I
3 would have said to anybody.

4 Q Do you recall whether anyone from the group
5 that I just read from the front page, Mr. Drake,
6 Ms. Ritchey, Mr. Woodyard or Mr. Brown, participated
7 in any discussions of that nature?

8 A I don't recall anything that anyone would
9 have said at that meeting.

10 Q Do you recall ever providing counsel to the
11 police commission with regard to procedures to follow
12 relating to the acquisition and financing of the
13 communications equipment, other than what you've
14 discussed?

15 A No.

16 Q Do you recall attending a meeting with the
17 individuals listed on the front page that I read
18 earlier, Mr. Drake, Ms. Ritchey, Mr. Woodyard and
19 Mr. Brown?

20 A Attending a meeting when?

21 Q Of the State Police Commission at any time
22 other than when you may have given your proposal?

1 A I have no specific recollection of any, you
2 know, particular meetings.

3 Q Okay. Thank you.

4 Did the State Police Commission issue
5 requests for proposals for the financing of the State
6 Police communications system?

7 A Yes, they did.

8 Q When did, did Lasater & Company -- I'm
9 sorry.

10 Did T.J. Raney, Hutton and Lasater &
11 Company receive a request for proposal?

12 A Yes, we did.

13 Q Who received that?

14 A I know we received one. I don't know
15 whether or not anybody else received one.

16 Q Was one addressed to your attention?

17 A Yes, it was.

18 Q When did you receive that?

19 A I don't know exactly when it was received,
20 but I expect that it was received shortly after the
21 meeting we just discussed.

22 Q Do you recall whether it was within a day

1 or two, was there a gap of time --

2 A I don't recall.

3 Q I'd like to show you a document Bates
4 stamped DKSX 018227 -- if you need a break at any
5 time, please let me know.

6 A I'm fine.

7 Q Chances are I'll be wanting it, too.

8 It's a letter on a state of Arkansas State
9 Police letterhead dated April 5, 1985. It's
10 addressed to Mr. Michael J. Drake and it's signed by
11 Mr. David Moseley. Take a moment to review that and
12 I'll ask you questions.

13 (Witness reviewed the document.)

14 The document I just showed you reads "Dear
15 Mr. Drake, you requested" --

16 MR. STRASSER: Do you have to read the
17 document? All of us can read.

18 MR. O'CALLAGHAN: I'm just going to read
19 the first page --

20 MR. STRASSER: Go ahead.

21 MR. O'CALLAGHAN: -- the first sentence.

22 MR. STRASSER: Will you read it with

78

1 expression so we'll all be interested in hearing
2 you. This is silly to have five of us sit here and
3 listen while you read. But go right ahead; if that's
4 how you'd like to ask your questions, go right ahead.

5 BY MR. O'CALLAGHAN:

6 Q Thank you. It says "your request to submit
7 proposal for financing the Arkansas State Police
8 communications system."

9 Did you receive a letter similar to
10 document I'm showing you?

11 A I believe I did.

12 Q Seeing the date, April 5th, 1985, do you
13 know whether you received a letter in or around that
14 time period?

15 A I expect that I --

16 MR. STRASSER: Go ahead.

17 THE WITNESS: I believe that I did.

18 BY MR. O'CALLAGHAN:

19 Q I direct your attention to the second to
20 last paragraph, which reads in the second sentence,
21 "potential bidders are cautioned to examine
22 carefully Act 817 of 1985 and base your proposals on

1 an estimated \$23 million contract with Motorola with
2 limitations on a payment of 3.1 million per year."

3 MR. STRASSER: It says 3.3 million in my
4 copy.

5 MR. O'CALLAGHAN: Excuse me.

6 MR. STRASSER: I'm glad you read this aloud
7 for us.

8 BY MR. O'CALLAGHAN:

9 Q My question is, do you recall whether the
10 letter you received contained similar language?

11 A I believe that it did.

12 Q And in preparing your proposal to the State
13 Police, did the Lasater/Raney/Hutton group read
14 carefully Act 817 of 1985?

15 A Well, I expect that we did.

16 Q And the Raney/Lasater/Hutton group was --
17 did you say they were instrumental in the drafting of
18 that legislation?

19 A I believe we were.

20 (Recess.)

21 MR. O'CALLAGHAN: Could you tell me what my
22 last question was.

80

1 (The reporter read the record as requested.)

2 BY MR. O'CALLAGHAN:

3 Q I wanted to follow up on something that you
4 said earlier. You mentioned that you contacted
5 Chester Hines, commissioner from Pine Bluff?

6 A Uh-huh.

7 Q Do you recall when you contacted
8 Commissioner Hines?

9 A It probably would have been sometime in
10 early 1985.

11 Q Was it before or after you'd submitted a
12 proposal -- the Raney/Hutton/Lasater group had
13 submitted a proposal to the commission?

14 A I don't recall.

15 Q Do you recall what the substance of the
16 conversation was?

17 A It was to make him acquainted with our
18 proposal and our ideas, and the merits of what we
19 either had presented or were going to present.

20 Q Was this a face-to-face meeting or a
21 telephone conversation?

22 A We met face to face. I met him at lunch in

1 Pine Bluff, Arkansas.

2 Q Did anyone else attend the lunch?

3 A No.

4 Q Just the two of you?

5 A Uh-huh.

6 Q Did he indicate to you whether he thought
7 your ideas were -- whether he looked favorably on
8 your ideas?

9 A I don't recall any reaction that he
10 indicated about the merits of our proposal. I think
11 he did mostly just listen.

12 Q Okay. I'd like to show you a document
13 Bates stamped DKS N 027850 through 027873. It's
14 entitled "presentation to the State Police Commission
15 of the state of Arkansas."

16 I think the left-hand corner of the first
17 page is a victim to our copy machine. I believe it
18 says "T.J. Raney & Sons Inc., E.F. Hutton and Lasater
19 & Company."

20 I want you to take a look at that. I'm
21 going to ask you very general questions about it.

22 (Witness reviewed the document.)

1 The document I just handed you, is that a
2 copy of the proposal that was submitted by the
3 Raney/Hutton/Lasater group for the Arkansas State
4 Police radio underwriting?

5 A It appears to be, but I have no way of
6 knowing if it's a complete copy of our presentation.

7 Q Does it appear to be at least -- do you
8 recognize the materials before you as part of the
9 proposal that was given to the commission?

10 MR. STRASSER: Do you want him to read
11 that? I will sit here and have him read it, but it
12 seems a terrific waste of time to have him
13 authenticate a 25-page document from memory.

14 THE WITNESS: This -- sorry.

15 MR. STRASSER: Is that what you want him to
16 do? You want him to do this?

17 MR. O'CALLAGHAN: To the extent that he
18 can.

19 MR. STRASSER: How is he going to do it
20 without reading it? This seems to me a silly
21 exercise. If you want to engage in a silly exercise,
22 go ahead and do it. I don't want you to ask him

1 questions like that which are unfair questions
2 without giving him a chance to read it.

3 If you want him to read through it and tell
4 you from memory whether this is the proposal, he can
5 go right ahead and do that. Do you want to represent
6 to us that this is the proposal?

7 MR. O'CALLAGHAN: No, I don't want to
8 represent that to you.

9 MR. STRASSER: Okay.

10 MR. O'CALLAGHAN: It's just something
11 that's been provided to us. I just wanted to know
12 from looking at it, the review he just gave it, which
13 I understand was cursory, after your cursory review
14 whether you remembered that was the proposal that was
15 submitted to the police commission.

16 THE WITNESS: I'm not sure why this
17 attachment appears a part of this because it's not
18 referenced in the table of contents. It just looks
19 like a general piece of information prepared by
20 E.F. Hutton.

21 And I can't say whether or not that was a
22 part of the proposal, but otherwise, whether or not

1 anything else was attached, I don't know. But it
2 appears to be the proposal that we presented on this
3 transaction.

4 BY MR. O'CALLAGHAN:

5 Q Okay. Thank you.

6 We discussed earlier a meeting that you had
7 with Commissioner Mitchum and a gentleman by the name
8 of Jack Meyers at the Excelsior Hotel. You say that
9 Mr. Meyers had done an analysis of different
10 proposals that had been submitted to the commission;
11 is that right?

12 A That's correct.

13 Q Do you know who hired Mr. Meyers?

14 A I assume that Mr. Mitchum had engaged
15 Mr. Meyers.

16 Q Do you know who paid Mr. Meyers for his
17 services?

18 A I think I recall that, after all the events
19 that occurred on the transaction, we may have either
20 paid him directly or reimbursed Mr. Mitchum for that
21 expense.

22 Q Do you have any specific recollection of

1 why you remember that?

2 A I just simply recall that we did that. I
3 don't have any documentation or whatever that
4 reflects that, because I recall, you know, I think I
5 felt that the, you know, what he had done had been
6 beneficial for our proposal and it was something that
7 we should pay for. But there was no agreement prior
8 to that to do so.

9 Q What kind of role did Michael Drake play in
10 helping the group prepare the proposal to the State
11 Police Commission?

12 A You know, we got together before our
13 presentation and rehearsed the things that we would
14 say. All of our team had the opportunity to review a
15 draft of the presentation before we made it, and so I
16 would have considered involvement that he played was,
17 you know, routine in relationship to what we were
18 doing.

19 Q Did he have a role in preparing any of the
20 documents that were prepared for the proposal?

21 A I don't recall.

22 Q Who had the lead role in preparing the

1 documents?

2 A The proposal?

3 Q Yes, for the proposal.

4 A E.F. Hutton prepared the proposal.

5 Q Did Lasater & Company contribute to any of
6 the financial analyses that was done for setting up
7 the structure for the finance?

8 A Do you -- I'm not sure I understand your
9 question.

10 Q With regard to setting up the structure of
11 how the financing was going to be done with the rates
12 and using driver's license fees and what have you,
13 did they have any role in setting that up?

14 A I don't remember specifically what they
15 might have done, but we all had discussions and
16 conversations about -- and commented on how the
17 proposal was developed. You know, it wasn't just
18 done by Hutton and we signed it. We all had an
19 opportunity to have some input, and I'm sure that
20 they did just like we did.

21 Q Did you ever hear reports that there were
22 complaints that Raney/Hutton/Lasater group had put in

1 an unrealistically low bid for the State Police
2 financing?

3 A Well, I know that -- I know that, I think,
4 one of the competitors suggested that we might have
5 presented interest rates that were below market. I
6 think that was recorded in the newspaper.

7 Q Other than that?

8 A No, no specific recollection of any other.

9 Q Do you know whether anyone at Lasater &
10 Company was contacted by the governor's office and
11 informed that they were putting in unrealistically
12 low bids?

13 A No.

14 Q Do you know whether they were contacted by
15 the governor's office and told that the bid that they
16 submitted must meet the actual price of the project?

17 A I'm not sure I understand what you're
18 talking -- what your question is.

19 Q Whether the bid submitted for the State
20 Police financing for the radio, whether that bid
21 should match what the price that was actually, that
22 it was actually executed at?

1 MR. STRASSER: You are asking him whether
2 he knows about whether anyone in the governor's
3 office contacted Lasater and said that sentence that
4 you just stumbled through; is that what the question
5 is?

6 MR. O'CALLAGHAN: Yes, sir.

7 MR. STRASSER: I'm still not sure what you
8 are asking. Are you asking whether -- I don't
9 understand what your question is.

10 BY MR. O'CALLAGHAN:

11 Q Okay. Are you aware of any conversations
12 that occurred between anyone at Lasater & Company and
13 anyone at the governor's office with regard to the
14 level of the bids that Lasater & Company was
15 submitting for any state underwriting contracts?

16 A No, I am not.

17 Q Did anyone in the governor's office contact
18 anyone at either T.J. Raney or E.F. Hutton with
19 regard to the level of the bid that was set for the
20 State Police bond underwriting?

21 A I do not recall that.

22 Q Did anyone at T.J. Raney, E.F. Hutton or

1 Lasater & Company have any general discussions with
2 anyone in the governor's office about the bids that
3 were being submitted -- the bid it was submitting for
4 the State Police radio contract?

5 A Are you asking me if anybody -- if you are
6 asking me if anybody at T.J. -- all I know is what I
7 was aware of and I'm not familiar with anything
8 that -- I was not involved in any discussion with the
9 governor's office about that, and I'm not familiar
10 with any discussions that anybody else had on it.

11 Q During the time that the bids were being
12 considered, are you aware of any concerns that were
13 expressed by members of the commission with regard to
14 any legal difficulties E.F. Hutton was experiencing?

15 A At the time that we made our oral
16 presentation, that was shortly after E.F. Hutton had
17 been charged in what was described as a check kiting
18 scheme, and that was discussed at the oral
19 presentation by, and raised by one of the
20 commissioners as a specific concern he had.

21 Q Did you share the concerns expressed by the
22 commissioner at the meeting?

90

1 A No, I did not.

2 Q Why is that?

3 A I was acquainted with the issues involved,
4 and I was satisfied that they had to do with events
5 that occurred in the past and had no relevance to the
6 transaction at hand.

7 Q Did you have any discussions with Steve
8 Claiborne about that subject?

9 A I'm sure I did. Obviously this was a
10 matter that was a potential negative for our group,
11 and we certainly discussed before the presentation
12 how to deal with that.

13 Q Did anyone at T.J. Raney have any -- have
14 conversations with anyone in the governor's office
15 about concerns they had about E.F. Hutton's legal
16 problems?

17 A Not that I'm aware of.

18 Q Did anyone from Lasater & Company?

19 A I do not know. I don't have any personal
20 knowledge of that.

21 Q Did anyone at E.F. Hutton?

22 A I don't have any personal knowledge.

1 Q Outside personal knowledge, have you ever
2 heard that that happened, conversations with Lasater
3 & Company and the governor's office?

4 MR. STRASSER: You are asking him about
5 rumors, press reports; is that what you are asking
6 about?

7 MR. O'CALLAGHAN: Not press reports or --
8 not press reports, but anything anybody might have
9 told you.

10 THE WITNESS: About a meeting between --

11 BY MR. O'CALLAGHAN:

12 Q Communication between the governor's office
13 and --

14 A About the Hutton problem?

15 Q Yes, sir.

16 A No.

17 Q How about the Hutton company and the
18 governor's office?

19 A No, I'm not.

20 Q I'd like to show you a copy of board
21 minutes, again May 10th, Arkansas State Police
22 Commission meeting. That's Bates DKS 027189 through

1 191. And I direct your attention to page 27190.
2 There's a discussion on that page which begins with
3 "Commissioner Johnny Mitchum prepared a brief
4 summary in comparison of the four proposals and
5 distributed copies to the commission. His conclusion
6 was that they might accept the best concept or format
7 rather than cost outline, that Raney/Hutton/Lasater
8 offered the best plan."

9 Do you recall him making those comments?

10 A Yes, I do.

11 Q Do you know what he -- what was your
12 understanding of his conclusion that they should
13 accept the best concept or format rather than cost
14 outline?

15 A I'm not sure I understand what was meant by
16 that statement, but you know, his recommendation was
17 primarily based on the analysis that had been
18 prepared by Mr. Meyers.

19 Q Okay. Then the next sentence reads "some
20 of the firms at this time requested permission to
21 revise their proposals. They felt there had been
22 some misunderstanding of the fact."

1 MR. STRASSER: "They felt there had been"
2 is what it says.

3 BY MR. O'CALLAGHAN:

4 Q Do you recall that occurring at the
5 meeting?

6 A I do, and I don't know who they're
7 referring to, but I know one, there was a discussion
8 about whether or not, as I recall, the law required a
9 monthly payment structure or something akin to a bond
10 structure like we presented.

11 Q Do you recall the specifics of that
12 conversation?

13 A Only that one firm felt like, you know,
14 that our presentation and others that were similarly
15 prepared were not responsive to what the legislation
16 required.

17 Q How did they feel it wasn't responsive?

18 A I think the legislation required -- said
19 something about monthly payments, and our
20 presentation involved a structure that looked much
21 like a typical bond structure, as did everybody
22 else's. And I remember specifically making a comment

1 in regard to that discussion that I felt since all
2 the other firms, other than this one particular firm
3 that raised that objection, had prepared their
4 presentation similarly to how we'd done it and
5 several of those had been associated -- had
6 associated with them, the leading bond law -- bond
7 legal firms in the city and the state, that that was
8 a pretty good indication that our presentation had
9 been consistently prepared with the requirements of
10 the law.

11 I think frankly the fellow that was making
12 that argument was simply confused about what that
13 meant.

14 Q Okay. Your proposal called for lease
15 payments to be made on the bonds; is that right?

16 A Our proposal required for the commission to
17 make payments -- actually they were going to be made
18 monthly but to a bond fund from which payments would
19 be made on a semiannual basis to investors,
20 bondholders or certificate owners.

21 Q And is that how the program was executed?

22 A Right. That's correct.

1 Q Thank you. During the preparation of your
2 proposal, did you have any contact with a man by the
3 name of Ed Erxleben?

4 A During the preparation of our presentation
5 or proposal?

6 Q From October '84 through May 1985.

7 A I don't recall the specific times of the
8 meetings or when they occurred or the length or
9 whatever, but I know that I had conversations at
10 least once with Ed Erxleben.

11 Q Do you recall what you spoke about?

12 A Here again, I think it was similar to other
13 meetings in preparation for presentation, just
14 information-gathering, trying to understand what
15 issues he was concerned about. And he was going to
16 play a role in the decisionmaking so it was important
17 to know what his concerns were.

18 Q What was his position at the time?

19 A He, as I recall, was, and I think still is,
20 the director of state purchasing.

21 Q Did you have an opportunity to review any
22 of the other proposals that were submitted to the

96

1 commission?

2 A I did.

3 Q And what proposals were you able to review?

4 A I think I reviewed all of them.

5 Q When did you do that?

6 A I did that after they were opened, after
7 they all had been presented to the commission.

8 Q Is that the date of the vote?

9 A Did I do it the date of the vote?

10 Q Is that the day of the vote, when they were
11 opened, presented to the commission?

12 A No, they were submitted -- I think ours was
13 dated April the 22nd so they were all submitted
14 probably about that time. And once they were all
15 received by the commission, they were available for
16 review. They were public information. I requested
17 the opportunity to do that and did so.

18 Q Did you have the opportunity to review any
19 of those proposals prior to April 22nd?

20 A No, I did not.

21 Q Did anyone at Lasater & Company?

22 A I have no knowledge that they did.

1 Q Did anyone at Hutton have the opportunity
2 to review the proposals before April 22nd?
3 A I don't think so.
4 Q Who delivered your proposal to the State
5 Police Commission?
6 A I don't recall.
7 Q Was it someone from your office?
8 A I'm sure it probably was, and it might have
9 been me.
10 Q Do you recall what time of day the proposal
11 was submitted?
12 A No, it was submitted on time.
13 Q Do you recall whether it was in the morning
14 or the afternoon or evening?
15 A I don't know.
16 Q In between the time that
17 Lasater/Hutton/Raney was awarded the contract by the
18 State Police Commission and the time that the state
19 legislature voted on whether or not to give advice
20 and counsel on that contract, did you hear that
21 Senator Knox Nelson intended -- was interested in not
22 having an underwriting be done in connection with the

1 state radio network?
2 A I don't recall that.
3 Q Did you have any conversations with Michael
4 Drake about Senator Nelson in between the time the
5 proposal was accepted and the legislature voted?
6 A I may have, probably did, but I don't
7 recall specifics.
8 Q I'd like to show you a document I'd like
9 you to read through it. For purposes of refreshing
10 your recollection, it's a document Bates stamped DKS
11 018182. It's dated 5/13/85. It's addressed to "Gov.
12 from BW, re: Knox Nelson, State Police
13 communications."
14 (Witness reviewed the document.)
15 MR. STRASSER: Go ahead. You can ask
16 questions about it.
17 BY MR. O'CALLAGHAN:
18 Q Okay. Thanks. After reviewing this
19 document does it refresh your recollection as to
20 whether Senator Nelson was against entering -- was
21 against the contract entered into with
22 Hutton/Raney/Lasater and the State Police Commission?

1 MR. STRASSER: You are not asking what the
2 memo says? We can all read what the memo says. You
3 are asking if this now sparks a present memory in him
4 about something he said he didn't know anything
5 about?

6 MR. O'CALLAGHAN: Yes, sir. I believe
7 that's what I asked him.

8 THE WITNESS: No.

9 BY MR. O'CALLAGHAN:

10 Q No?

11 A No.

12 Q Thank you. Do you recall whether in May
13 of '85 Michael Drake told you that he had arranged a
14 meeting between Senator Knox Nelson and any members
15 of the Arkansas State Police Commission?

16 A No.

17 Q Are you aware of any opposition to the
18 contract that was awarded to E.F. Hutton, Lasater and
19 Raney in the state legislature after the contract was
20 awarded?

21 A Any opposition by who?

22 Q From the state legislature.

100

1 A Well, I know that the legislative council,
2 initially when it voted on whether or not to approve
3 the transaction as decided by the State Police
4 Commission, there were members that voted no.

5 Q Do you recall whether the council failed to
6 give favorable advice on the contract?

7 A Yes.

8 Q Do you remember having a reaction to that?

9 A Well, it wasn't -- I would have preferred
10 that they would have given favorable advice, so I was
11 not pleased that they did not give favorable advice.

12 Q Did that slow down the execution of the
13 contract in any way?

14 A It would have slowed down the execution of
15 the contract, yes.

16 Q Why is that?

17 A Well, even though the legislative Act
18 didn't require the legislative council to really do
19 anything, the state commission was concerned about
20 proceeding with the transaction without blessing from
21 the legislative council.

22 Q And the legislative Act that you're

1 referring to is 817?

2 A Right, the implementing legislation.

3 Q Did anyone from T.J. Raney, Lasater &
4 Company or E.F. Hutton meet with any of the state
5 legislature to try to convince them to give favorable
6 advice and counsel to the contract?

7 A I'm not acquainted with what Lasater or
8 Hutton might have done about that, but I know that
9 there were people from T.J. Raney that contacted a
10 few legislators just to inquire about their
11 understanding of the issue and express our interest
12 and request their favorable consideration.

13 Q Who at T.J. Raney made those calls?

14 A I think I may have contacted one or more of
15 the legislators. I don't recall exactly who, but I'm
16 certain I contacted somebody. And I think that Bob
17 Snider may have made a contact. Fellow named Jim
18 Alexander may have made a contact. And I don't know
19 about anybody else, but these would just be people
20 that they were personally acquainted with.

21 Q Did you have any contact with anyone in the
22 governor's office with regard to the council not

1 giving favorable advice?

2 A No, I didn't. Not that I recall.

3 Q Anyone from T.J. Raney?

4 A I don't think so.

5 Q Anyone from Lasater & Company?

6 A I wouldn't have any knowledge of that.

7 Q Anybody from E.F. Hutton?

8 A I would not have any knowledge of that
9 either.

10 Q Are you aware whether Governor Clinton met
11 with any of the state legislators with regard to
12 their failure to give favorable advice to the
13 contract?

14 A I have no personal knowledge of that.

15 Q Other than newspaper accounts, you --

16 A Other than newspaper accounts saying that,
17 suggesting that happened.

18 Q Did anyone at T.J. Raney request the
19 governor to do that?

20 A No, not that I'm aware of.

21 Q Anyone at Lasater & Company request --

22 A I have no personal knowledge of that.

1 Q Did anyone from E.F. Hutton make --

2 A I have no personal knowledge of that.

3 Q I just need to ask you to wait for you to

4 finish my questions before you answer. Thank you.

5 A Okay.

6 (Discussion off the record.)

7 BY MR. O'CALLAGHAN:

8 Q Let me know if I've already asked this

9 question. If I have, I'm sure counsel will let me

10 know. During the period 1983 to 1986, did you have

11 any communications with Dan Lasater?

12 A I may have been introduced to him, but if

13 by "communication," you mean some discussion other

14 than just a hello?

15 Q Any kind of contact?

16 A Only probably a casual introduction.

17 Q Do you recall when that occurred?

18 A No, I don't. I'm sure I was introduced to

19 him during the course of this transaction.

20 Q Did he ever attend any meetings involving

21 the transaction?

22 A Only maybe initially to step in and say

104

1 hello, but he was never really involved in any of the

2 actual meetings that might have occurred, that I was

3 involved with.

4 Q During the period 1983 through 1986, did

5 you know Roger Clinton?

6 A No.

7 Q Between 1983 and 1986, did you have any

8 contacts with Governor Clinton?

9 A 1983 to 1986. I don't recall any.

10 Q Did you have any discussions -- have you

11 ever had any discussions with him regarding state

12 bond underwriting?

13 A Any state bond underwriting?

14 Q Yes, sir.

15 A I served in 1990 as the state's financial

16 adviser on a GO bond program where we were the

17 state's financial adviser and assisted in the ratings

18 process for those GO bonds. And during that process,

19 we had at least one meeting with the governor, with

20 Moody's. And so I mean that would probably --

21 Q Any meetings before that, any discussions?

22 A I don't recall any.

1 Q Again, up until -- actually this question
2 is up until the time -- up and through October 1986,
3 did you have any conversations with anyone associated
4 with the State Police regarding Dan Lasater?

5 A How do you mean, "regarding Dan Lasater"?

6 Q Any conversations where with the State
7 Police -- let me fine-tune it a little bit.

8 Any conversations with anyone associated
9 with the Arkansas State Police about potential or
10 actual criminal activity of Dan Lasater?

11 A I remember a meeting I had with -- a lunch
12 meeting I had with Colonel Goodwin. And I think both
13 he and I were the only people that were involved in
14 this meeting where the discussion -- we did have some
15 discussion about comfort level with some rumors about
16 Dan Lasater. And he indicated to me that he
17 investigated those rumors and found that there was
18 nothing to them.

19 Q Was this a meeting set up to discuss this
20 issue?

21 A No, I think we were just talking about the
22 status of the financing.

1 Q Do you recall when the meeting took place?

2 A It must have been after we were engaged,
3 but I don't recall exactly when it was. It may have
4 been after the financings closed, I just don't
5 recall.

6 Q You don't recall whether it was before or
7 after the closing. Did he relate to you whether the
8 governor had any concerns about possible criminal
9 activity by Mr. Lasater or actual criminal activity?

10 A I don't recall that he did.

11 Q Did he have any discussions with anyone
12 else in the State Police Commission -- with anyone,
13 with any of the commissioners about this subject?

14 A Did Colonel Goodwin or did I?

15 Q Yes, sir, Colonel Goodwin.

16 A I have no knowledge of what Colonel Goodwin
17 did or said to anybody else about it.

18 Q And did you?

19 A No.

20 Q No conversations with Mr. Mitchum or anyone
21 else?

22 A Not that I recall.

1 Q Did you have any other discussions with
2 Colonel Goodwin on this subject?

3 A Not that I recall.

4 Q Any discussions with anyone at the
5 governor's office on this subject?

6 A Not that I recall.

7 Q Did you ever discuss the governor's
8 relationship with Mr. Lasater with any members of the
9 State Police Commission?

10 A I don't think so. I don't recall ever
11 having any such discussion.

12 Q Did you ever have any discussions with
13 Mr. Drake about the governor's relationship with
14 Mr. Lasater?

15 A No, I don't recall any. I think it was
16 well -- I mean it was well-known that Lasater was a
17 political supporter of Governor Clinton.

18 Q But did you have any discussions with
19 Mr. Drake about that?

20 A About a personal relationship?

21 Q Yes, sir.

22 A No.

1 Q Did you ever hear about any contributions
2 that Mr. Lasater made to the governor's campaigns?

3 A You know, those sorts of things are
4 published in the newspaper with who contributes to
5 what candidate. I'm sure we all knew that he was on
6 the list.

7 Q Other than that it was published in the
8 newspapers, did you have any conversation with anyone
9 about contributions by Mr. Lasater to Governor
10 Clinton?

11 A Not that I recall. I mean, it was public
12 information. He was a supporter of Governor
13 Clinton. I didn't need anybody to tell me that.

14 Q Did you ever learn that employees of
15 Lasater & Company were encouraged to contribute money
16 to Governor Clinton's campaigns or inaugurals?

17 A You know, I have no personal knowledge of
18 what any employees of Lasater might have done.

19 Q I'm sorry. The question is, do you know
20 whether they were encouraged to do so?

21 MR. STRASSER: You've asked him to assume
22 the truth of the fact. Do you want him to assume the

1 truth of it or are you asking him whether he knows it
2 to be true?

3 MR. O'CALLAGHAN: I'm asking whether he
4 ever heard it -- first of all, whether he ever heard
5 it.

6 THE WITNESS: I have no recollection of
7 that.

8 BY MR. O'CALLAGHAN:

9 Q Okay. Did you ever use Lasater-owned
10 aircraft?

11 A No, I did not.

12 Q Are you aware of whether Lasater-owned
13 aircraft were used to fly state officials to bond
14 closing dinners?

15 A I'm not familiar with that. I have no
16 personal knowledge of that.

17 Q Did anyone from Lasater & Company encourage
18 you to contribute to Governor Clinton's campaigns or
19 inaugurations?

20 A I don't recall that they did.

21 Q Do you know whether they encouraged anyone
22 at T.J. Raney to contribute to Clinton campaigns or

1 inaugurations?

2 A I don't recall.

3 Q Were you ever made aware that political
4 pressure was used in order to award the contract for
5 the underwriting on the State Police radio network to
6 T.J. Raney, Lasater and Hutton?

7 A I'm not sure I understand what you mean by
8 "political pressure."

9 Q Was there any political influence exerted
10 to award the contract to T.J. Raney, Lasater and
11 Hutton? Do you understand that?

12 A You know, I've stated earlier that we made
13 contacts with people we were acquainted with to
14 encourage them to consider the merits of our
15 proposal. So I'm acquainted with those activities.

16 Q Are you aware of any contacts that were
17 made by anyone at the governor's office to anyone at
18 the State Police recommending that they accept the
19 Hutton/Raney/Lasater proposal?

20 A No, I'm not.

21 Q Are you aware where anyone from the
22 governor's office recommended to the legislative

1 council to give favorable advice to the underwriting
2 contract awarded to Raney, Hutton and Lasater?

3 A I only know from a news report that I think
4 three legislators indicated that they met with the
5 governor who asked them to give the transaction
6 favorable approval. And I only know that from what I
7 read in the newspaper.

8 Q Do you know whether they eventually gave
9 favorable advice or voted yes on it?

10 A I do know that, subsequent to the initial
11 meeting, the legislative council did meet and give
12 favorable advice.

13 Q Do you know if the three legislators that
14 were contacted gave favorable vote?

15 A I don't recall that. I don't remember.

16 Q This is slightly different question, but
17 with regard to whether the governor himself contacted
18 anyone at the State Police Commission and recommended
19 that the Raney/Hutton/Lasater proposal be accepted,
20 do you have any knowledge of that?

21 A I do not.

22 Q Did anyone from Lasater & Company provide

1 cash to the governor or anyone on his staff in
2 connection with the police radio bond underwriting?

3 A I have no personal knowledge of anything
4 like that.

5 Q Are you aware of whether anyone at Lasater
6 & Company ever made any attempts to provide cash to
7 either the governor or anyone on his staff in
8 connection with the police bond underwriting?

9 A I have no personal knowledge of anything
10 like that.

11 Q Have you ever heard that happened?

12 MR. STRASSER: Ever heard what happened?

13 BY MR. O'CALLAGHAN:

14 Q That an employee of Lasater & Company
15 offered cash to either the governor or anyone on his
16 staff in connection with the police radio bond
17 underwriting?

18 A I have no personal knowledge of that or any
19 other information about anything like that.

20 MR. O'CALLAGHAN: Why don't we take a brief
21 break here.

22 (Recess.)

1 BY MR. O'CALLAGHAN:

2 Q This question is a little broader than the
3 questions I asked you right before we took our
4 break. Did anyone at Lasater & Company attempt to
5 provide the governor or anyone in his office money in
6 connection with any state bond underwritings?

7 A I have no personal knowledge of anything
8 like that.

9 Q Okay. Again, I have to ask you, have you
10 ever heard that?

11 MR. STRASSER: You just said it. Are you
12 asking him about rumors and press reports or are you
13 asking him --

14 MR. O'CALLAGHAN: I'm asking him if he's
15 ever heard that that happened.

16 THE WITNESS: I don't think I have.

17 BY MR. O'CALLAGHAN:

18 Q Okay. Did anyone at Lasater & Company
19 attempt to provide the governor or anyone in his
20 office with any other kind of compensation in
21 connection with any state bond underwritings?

22 A I have no personal knowledge of anything

1 like that.

2 Q Again, have you ever heard that that
3 happened?

4 A No.

5 Q Are you aware of whether anyone ever
6 offered a member of the ADFA board cash or any other
7 kind of a compensation in connection with the bond
8 underwriting?

9 A I have no personal knowledge of anything
10 like that.

11 Q Have you ever heard that occurred?

12 A No.

13 Q Did anyone ever offer cash to a member of
14 the Arkansas State Police Commission in connection
15 with the police radio bond underwriting?

16 A I have no personal knowledge of that.

17 Q Have you ever heard that that happened?

18 A No.

19 MR. O'CALLAGHAN: I have no further
20 questions at this time. I believe Mr. Feuer would
21 like to ask you some questions. Thank you.

22 MR. FEUER: Why don't we go off the record

1 for a moment.

2 (Discussion off the record.)

3 EXAMINATION

4 BY MR. FEUER:

5 Q Mr. Young, let me introduce myself again.
6 My name is Mitchell Feuer. I am a counsel on the
7 Democratic staff of the Senate Banking Committee.
8 For purposes of this deposition, I will be asking you
9 questions on behalf of the Democratic Senators who
10 serve on the Senate Special Committee on Whitewater
11 and related matters.

12 Because of the nature of this proceeding
13 where Mr. O'Callaghan asks questions first on behalf
14 of the Majority and I ask questions second on behalf
15 of the Minority, there is inherently some repetition
16 involved. I will try to keep that to a minimum, and
17 I apologize for it in advance.

18 If at any point you don't hear my question,
19 please let me know and I will repeat it. If at any
20 point you don't understand my question, please let me
21 know and I will rephrase it or explain it so that we
22 understand one another.

1 If at any time you want to take a break or
2 you want to confer with your counsel, please let me
3 know and we will go off the record for that purpose.

4 Did you have a belief in May 1985 as to why
5 the Raney/Hutton/Lasater group was awarded the
6 contract for the Arkansas State Police bond
7 underwriting?

8 A Well, I felt like we had the least costly
9 proposal, and the best proposal for the state.

10 Q Have you learned anything since May 1985
11 that has caused you to change that belief?

12 A No.

13 Q From the time you joined T.J. Raney in 1983
14 through 1986, was it part of your job to learn about
15 opportunities to finance projects for state and local
16 governments?

17 A Yes, it was.

18 Q Did you contact government officials to
19 learn about those opportunities?

20 A Yes, I did.

21 Q And did you make those officials aware of
22 T.J. Raney's ability to assist in financing public

1 projects?

2 A Yes.

3 Q Was that a common practice in the
4 underwriting business at that time?

5 A Yes, it was. It still is.

6 Q When Bobby Roberts mentioned to you that
7 the State Police were considering building a new
8 state radio system, did he indicate that was a
9 secret?

10 A No, he did not.

11 Q Did he ask you to keep that information
12 confidential?

13 A No, he did not.

14 Q Did he tell you that if T.J. Raney wanted
15 to be involved with that project that the Raney firm
16 would have to form a partnership with the Lasater
17 firm?

18 A No, he did not.

19 Q When you met with David Moseley in or
20 around November 1984, did Mr. Moseley indicate that
21 the fact that the State Police were considering
22 financing the acquisition of a new radio system was a

1 secret?

2 A No, he did not.

3 Q Did he ask you to keep that information
4 confidential?

5 A No, he did not.

6 Q Did he ask you to keep any of the
7 information that he provided to you in that meeting
8 confidential?

9 A No.

10 Q Did Mr. Moseley tell you that if the T.J.
11 Raney firm wanted to be involved in the financing of
12 the new radio system that it had to form a
13 partnership with the Lasater firm?

14 A No.

15 Q When you and Mr. Snider met with
16 Mr. Bratton to discuss the new police radio system,
17 did Mr. Bratton indicate that the fact that the State
18 Police was considering the financing of a new radio
19 system was a secret?

20 A No.

21 Q Did he ask you to keep that information
22 confidential?

1 A No.

2 Q Did he ask you to keep any information that
3 he may have provided you in the course of that
4 meeting confidential?

5 A Not that I recall.

6 Q Did Mr. Bratton say that if the T.J. Raney
7 firm wanted to be involved in the financing of the
8 new radio system that it had to form a partnership
9 with the Lasater firm?

10 A No.

11 Q Did anyone in the governor's office at any
12 point in 1984 or 1985 indicate to you that the
13 Lasater firm would definitely be involved in the
14 financing of a new police radio system?

15 A No.

16 Q Did anyone in the governor's office at any
17 time in 1984 and 1985 indicate that if the T.J. Raney
18 firm wanted to be involved in the financing of a new
19 police radio system the Raney firm had to form a
20 partnership with the Lasater firm?

21 A No.

22 Q At the time of the December 1984 meeting

120

1 attended by representatives of the Raney, Hutton and
2 Lasater firms and others, did you believe that it was
3 certain that the Raney/Hutton/Lasater group would be
4 awarded the contract for underwriting the police
5 radio bonds?

6 A No.

7 Q Mr. O'Callaghan previously showed you a
8 document that bore the Bates stamps 17979 through
9 17993 and you indicated that it was your belief that
10 the Friday, Eldredge & Clark law firm might have
11 drafted that document. Do you have a belief as to
12 who might have hired the Friday law firm to prepare
13 that document?

14 A No, I do not.

15 Q Is it your understanding that in 1985 the
16 Friday law firm had any kind of relationship with
17 Stephens, Inc.?

18 A I think they may have been a part of the
19 Stephens proposal, like Mitchell was a part of our
20 proposal. They were mentioned in the Stephens
21 proposal, as I recall.

22 Q Did the Friday law firm -- do you know

1 whether the Friday law firm carried out most of
2 Stephens, Inc.'s legal representations at that time?

3 A I don't think they did. I do not know. We
4 work with the Friday law firm a lot ourselves.

5 Q Did T.J. Raney work with the Friday law
6 firm in connection with the State Police Commission's
7 issuance of bonds in 1985?

8 A They ultimately represented First
9 Commercial Trust, which was the issuer of the
10 certificates of participation. So they did have a
11 small role to play in the transaction that ultimately
12 closed.

13 Q Did you tell Commissioner Mitchum to hire
14 an actuary?

15 A No, I did not.

16 Q Did anyone at the Raney firm, the Hutton
17 firm, or the Lasater firm tell Mr. Mitchum to hire an
18 actuary?

19 A Not that I'm aware of. I'm not familiar
20 with anything like that.

21 Q Did you tell Mr. Mitchum to hire Mr. Myers?

22 A No, I did not.

1 Q Did anyone at the Raney firm, the Hutton
2 firm, or the Lasater firm tell Mr. Mitchum to hire
3 Mr. Myers?

4 A I have no personal knowledge of anything
5 like that.

6 Q Prior to your meeting with Mr. Mitchum and
7 Mr. Myers at the hotel, did you know that Mr. Mitchum
8 had hired Mr. Myers?

9 A I don't think I did.

10 Q Did you know that, prior to that meeting,
11 did you know that Mr. Myers was engaged in reviewing
12 the proposals by underwriters on anyone's behalf?

13 A I don't think. If I was, it may have
14 occurred, you know, very soon before the meeting, but
15 I don't recall that I did.

16 Q Did the analysis performed by Mr. Myers
17 that you were shown during that meeting -- strike
18 that question.

19 Were you shown an analysis prepared by
20 Mr. Myers during that meeting?

21 A Yes.

22 Q Was it your understanding at that time that

1 the analysis prepared by Mr. Myers attempted to
2 evaluate the strengths and weaknesses of the
3 different proposals by the different underwriters?

4 A Yes. One of the things that the different
5 firms had done is make different assumptions, for
6 example, about earnings, what the rate on the
7 earnings would be. And one of the things that
8 Mr. Myers's presentation did was use the same rate of
9 earnings for all of the presentations.

10 Q Which earnings are you referring to?

11 A Earnings on the funds that are generated by
12 the financing before they're spent, such as the
13 construction funds or the debt service reserves.

14 Q Was it contemplated that the underwriting
15 would raise a sum of money from investors all at one
16 time?

17 A Yes.

18 Q And was it further contemplated that those
19 moneys would be spent over a period of time?

20 A Yes, it was.

21 Q And was it contemplated that the state of
22 Arkansas would earn interest on the funds that had

1 been received from investors during the time period
2 before those funds were expended?

3 A Yes, it was.

4 Q What is a debt service reserve fund?

5 A A debt service reserve fund is a fund that
6 is held by a trustee in a financing to be available
7 in the event that the revenues dedicated for
8 repayment for a financing ever fall short of those
9 requirements. If that happens, a reserve can be
10 tapped and used to make the payments to investors so
11 that they can continue on schedule.

12 Q If the revenues don't fall short, is the
13 issuer of the bonds -- is an issuer of bonds able to
14 earn interest on the debt service reserve fund?

15 A Yes.

16 Q How did the debt service reserve fund in
17 the Raney/Hutton/Lasater proposal compare to the debt
18 service reserve funds in the other proposals?

19 A Well, I know that the Stephens proposal had
20 a reserve amount equal to one half-year's debt
21 service as opposed to ours which had a full year's
22 debt service, which actually was detrimental to their

1 presentation because at the time you could actually
2 earn and keep -- or an issuer could keep the benefit
3 of earnings that were generated over and above what
4 the financing rate was. So the larger the reserve
5 the greater the net benefit to an issuer.

6 I don't recall how the other presentation
7 structured their reserves. I think some had full
8 year reserves. I think the one prepared by First
9 Capital, I think, didn't have any reserve.

10 Q Did the full year debt service reserve fund
11 in the Raney/Hutton/Lasater proposal allow the State
12 Police Commission to borrow money more cheaply than
13 did the other proposals?

14 A Well, as I recall, the average cost of the
15 money in the State Police transaction, the borrowing
16 rate or the rate paid to the investors was
17 approximately 7-3/4 percent. And the reserve was
18 invested, I think, in excess of 10-1/2 percent.
19 Therefore, I think the reserve of approximately 3.7
20 or \$3.8 million, the difference between the
21 10-1/2-plus less the 7-3/4 in effect, was able to
22 reduce the net payments that the State Police paid

1 for the lease.

2 So in our earlier -- in an earlier question
3 you asked me to refer to the rate that we quoted as
4 an effective rate on the financing, and that
5 effective rate was calculated based on the net
6 payments that were made. And that is the net
7 payments after reduction on earnings off the
8 reserve. So we had more earnings. You had a lower
9 net payment and therefore a lower effective rate.
10 And I think that was one of the significant features
11 of our presentation in terms of its cost comparison
12 to the others.

13 Q At the time you reviewed the analysis
14 prepared by Mr. Myers, did you feel he had accurately
15 determined the costs to the state of the proposals by
16 the different underwriters?

17 A As I mentioned earlier, I felt like it
18 didn't give full benefit to the reserves that was a
19 part of our proposal. I think, if you'll look at the
20 numbers that he prepared, he shows a net reserve
21 benefit that he uses in his analysis of approximately
22 \$900,000. And as I mentioned just a new minutes ago,

1 the reserves actually were in the neighborhood of
2 3.7, \$3.8 million. And so, in my view, the real
3 benefit, the full benefit of that reserve wasn't
4 adequately reflected in the analysis he did.

5 Q Did Mr. Mitchum or Mr. Myers ask you for
6 your input with or for any changes to the analysis?

7 A No. He just asked for my reaction. As I
8 recall, I probably said the same thing that I've just
9 told you.

10 Q Do you have any reason to believe that
11 Mr. Mitchum or Mr. Myers made any changes to those
12 materials before they were presented to the Police
13 Commission?

14 A No.

15 Q Mr. Young, I'm going to show you a document
16 that has previously been marked DKSX 001406 through
17 1422. I believe this is another copy of a document
18 that Mr. O'Callaghan has already shown you, but I
19 can't represent that that's the case, that is my
20 belief.

21 But in any event, I'm going to ask you
22 questions about just three pages of this document,

1 which are pages 1410 through 1412. Why don't you
2 please let me know when you've had a chance to look.

3 (Witness reviewed the document.)

4 MR. STRASSER: Do you want him just to look
5 at --

6 MR. FEUER: Let me restate that. I am
7 going to ask you one question about the entire
8 document and I'm going to then focus on the three
9 pages that I mentioned.

10 MR. STRASSER: I don't suppose you have a
11 copy for me?

12 THE WITNESS: The three pages were which
13 ones?

14 MR. STRASSER: He wants you to look at the
15 whole thing.

16 MR. FEUER: The three pages are pages 1410
17 through 1412.

18 (Witness reviewed the document.)

19 MR. FEUER: Let me further tell you that
20 these pages were produced to the Special Committee in
21 this order.

22 MR. STRASSER: In the order we see them?

1 MR. FEUER: In the order you see them. But
2 no pages that were produced to the Committee were
3 stapled. So I have stapled them together in this
4 fashion. They were produced sequentially, but they
5 were not stapled together in this way.

6 MR. STRASSER: Can you tell us who produced
7 them?

8 MR. FEUER: They were produced to the
9 Committee by Mr. Kendall, the personal attorney for
10 President and Mrs. Clinton.

11 (Witness reviewed the document.)

12 MR. STRASSER: Go ahead and ask.

13 BY MR. FEUER:

14 Q Is this document the analysis prepared by
15 Mr. Myers that you were shown in the meeting, in your
16 meeting with Mr. Mitchum and Mr. Myers?

17 A It appears to be all after the first page.

18 Q In other words, the first page does not
19 appear to belong with the other -- with the following
20 pages?

21 A No. The first page I think was something I
22 prepared. That's my handwriting. And I think that I

1 probably prepared this as part of my own analysis of
2 the proposals. And one of the things I remember that
3 I did is I not only calculated the cost of our
4 proposal at the rates we assumed, but also the cost
5 of our proposal at the rates that Stephens had
6 assumed and verified with my own numbers that our
7 proposal was still better.

8 Q And is that analysis that you performed
9 reflected on page 1406?

10 A That's part of it. I think that this may
11 have been one of the rough, early cuts I did of
12 that. I think I did a little bit more detailed
13 analysis than this. This is really just an
14 approximation, but it shows the methodology that I
15 was using.

16 You can see that I basically tried to
17 estimate the present value of the net payments. I
18 took the gross payments less the debt service reserve
19 and the earnings.

20 Q And your analysis indicated that even using
21 the interest rates assumed by Stephens, Inc. that the
22 structure of the Raney/Hutton/Lasater proposal would

1 still allow the Police Commission to borrow money
2 more cheaply than would the Stephens, Inc. structure?

3 A That's correct.

4 Q Turning to pages 1410 through 1412 --

5 MR. O'CALLAGHAN: Before we go on, can I
6 ask a couple quick questions on the first page, if
7 you don't mind? Or if you want, I can do it after.

8 MR. FEUER: No, go ahead.

9 EXAMINATION

10 BY MR. O'CALLAGHAN:

11 Q Some general questions. Just to clarify,
12 the analysis that you performed that appears on page
13 1406, do you recall when you prepared that?

14 A It would have been after I reviewed the
15 proposals presented by all the firms.

16 Q Okay. Did you have this with you when you
17 went to meet with Mr. Myers and Commissioner
18 Mitchum?

19 A I don't recall. I doubt I did.

20 Q Do you recall whether you performed it
21 before or after you met with Mr. Mitchum and
22 Mr. Myers?

1 A I probably performed it before I met with
2 them.

3 Q Did you provide it to anybody?

4 A To the members of our team.

5 Q Did you provide it to the commissioners?

6 A Well, we did in our presentation. In fact,
7 we had a little chart we prepared that showed the
8 numbers that I'd calculated of our analysis.

9 Q So this was part of your oral presentation,
10 one of the exhibits?

11 A I don't think this was part of our
12 presentation, but the numbers I calculated similar to
13 this were the basis of part of our oral presentation.

14 Q Did you distribute this particular page to
15 anyone outside the firm?

16 A I don't think so. I may have. Obviously I
17 did. Somebody else obtained it, but I don't recall
18 how that would have occurred.

19 MR. O'CALLAGHAN: Okay. Thank you.

20 THE WITNESS: Do you mind if I take a quick
21 break to make a quick call?

22 (Recess.)

EXAMINATION

BY MR. FEUER:

Q Mr. Young, did all the underwriters who submitted proposals to the Arkansas State Police submit their proposals on the same day?

A I think they did.

Q Did you have access to the proposals of any other underwriters before they were submitted to the State Police?

A No, I did not.

Q Once the Arkansas State Police had received all of the proposals from the underwriters, did the Arkansas State Police make all of the proposals available to all of the underwriters?

A I had assumed so. They were public information, you know, that permitted me to go through them like I would assume they would have permitted anybody else to have. I don't know whether anybody else did but they certainly had the opportunity.

Q It was your impression -- strike that.

Did you believe that you had received any

134

special treatment?

A No, I did not.

Q I'm going to ask you to look at pages 1410 through 1412. Do you have a belief, after looking at these pages, as to whether they accurately state the net present value of the Raney/Hutton/Lasater bid as of May 9th, 1985?

A Well, as I indicated earlier, I felt like this probably didn't adequately reflect the benefit, the full benefit of the reserve we had. You can see up here on the page, initial reserve fund \$970,000. And I felt like that this presentation, although having some validity, did not fully reflect the benefit of our presentation.

Q Did you ask Mr. Myers how he arrived at the figure of \$970,875 as the initial reserve fund?

A I think that is the difference between the bond issue or the certificate amount and the costs funded or the project amount funded.

Q And does that amount not fully capture the reserve fund?

A Well, if you look at the first 13 months

1 here, what he's done is to assume that there's no
2 out-of-pocket expense by the Police Commission until
3 month 13. And in the summary's page that was on
4 another document we looked at, that was one of the
5 things that was referred to. It said that one of the
6 benefits, other than what these numbers reflect, is
7 there was no net payment until month 13.

8 And I think what that was intended to say
9 was that the benefit of not having to be
10 out-of-pocket any dollars until that 13th month plus
11 the earnings that would be generated on those funds
12 was not reflected in these numbers.

13 Now, the actual net -- well, the actual way
14 the transaction was structured is that they were
15 out-of-pocket some payments in the first 13 months,
16 but they also had \$3.7 million invested that
17 generated over \$400,000 a year through -- actually
18 through 1997 the way the thing was finally
19 completed. Whereas in this analysis, you'll see on
20 1411 he's given credit for a little over \$8000 a
21 month, which I guess would be what about a little
22 less than a \$100,000 a year, well below what actually

1 they benefited from in the structure.

2 So I think that the way he presented this
3 in terms of showing it not being out-of-pocket in the
4 initial period was in part some way to illustrate the
5 net result of the fund reserve, but in my view it
6 didn't fully reflect that because it didn't fully
7 reflect the benefit of the full term.

8 Q So page 1410 fails to reflect the full
9 benefit of the amount of payments during the first 13
10 months of the project?

11 A That was my view.

12 Q And pages 1410 through 1412 taken together
13 failed to reflect fully the ability of the state of
14 Arkansas to earn interest on the debt service reserve
15 fund?

16 A That was my view.

17 Q Are pages 1410 through 1412 inaccurate or
18 incomplete in any other way?

19 A I don't think so. They appear to be a fair
20 illustration of the cash flows based on the proposal,
21 you know, the actual transaction worked out to be a
22 little different. For example, the reserve fund

1 interest rate was more than 10 percent. It was, I
2 think, in excess of 10-1/2 percent.

3 Q And did that allow the state of Arkansas to
4 earn even more money than is reflected in these
5 pages?

6 A Correct.

7 Q Who made the decision regarding which
8 underwriters to hire for the new radio system bond
9 issue?

10 A The State Police commissioner.

11 Q Did Governor Clinton make that decision?

12 A No.

13 Q Did Governor Clinton's chief of staff make
14 that decision?

15 A No.

16 Q Did anyone in the governor's office make
17 that decision?

18 A No.

19 Q Do bonds typically -- strike that.

20 Do bonds issued by state agencies typically
21 provide for semiannual payments of principal and
22 interest to bondholders?

1 A That's the standard structure.

2 Q Prior to May of 1985, did bonds issued by
3 the state of Arkansas and agencies of the state of
4 Arkansas typically provide for semiannual payments of
5 principal and interest to bondholders?

6 A Yes.

7 Q Did the financing of the new radio system
8 for the Arkansas State Police contemplate that the
9 Arkansas State Police Commission would lease the new
10 radio system and make lease payments to a lessor?

11 A Yes.

12 Q And how often was the State Police
13 Commission to make those lease payments?

14 A They made payments monthly.

15 Q Did the legislation that authorized the
16 acquisition and financing of the new police radio
17 system specify how often payments of principal and
18 interest to bondholders were to be made?

19 A No, I don't believe it did.

20 Q Was it your belief at that time that a
21 structure that provided for semiannual payments of
22 principal and interest to bondholders would be

1 consistent with the legislation that authorized the
2 acquisition and financing of the new police radio
3 system?

4 A Yes.

5 Q Have you learned anything since that time
6 that has caused you to change that belief?

7 A No.

8 Q Mr. Young, I'm going to show you a document
9 that has previously been marked DKS N 018193 through
10 18199. I believe Mr. O'Callaghan showed this to you
11 earlier as well.

12 (Witness reviewed the document.)

13 At the top of page 18193, it says "Act 817,
14 1985, a bill." And at the bottom of page 18199, it
15 says "4/4/85 approved by governor," and there is a
16 signature, "Bill Clinton. "

17 Do you recognize this document?

18 A Yes, it appears to be a copy of the
19 authorizing legislation, Act 817.

20 Q Did you have occasion to look at this
21 legislation in 1985?

22 A I'm sure we did. And as I testified

1 earlier, we were involved with the drafting of this
2 legislation.

3 Q I'm going to ask you to turn to page 18197
4 and I'm going to ask you to focus on lines 27 through
5 28, the sentence that begins on line 27 and ends on
6 line 28.

7 (Witness reviewed the document.)

8 Did you have occasion to discuss that
9 provision of the legislation, the sentence that
10 begins on line 27 and ends on line 28 of page 18197,
11 with anyone in 1985?

12 A Well, it came up in the State Police
13 meeting where they made the decision to hire our
14 team. I think we've talked about that earlier about
15 one group interpreted that as an absolute
16 requirement, as I recall, of making payments to
17 investors on that basis.

18 Q Which group was that?

19 A That was the First Capital Resources
20 group. At any rate, the one that included a fellow
21 from Clayton Brown, as I recall.

22 Q Did the Raney/Hutton/Lasater group

1 interpret that provision as requiring that payments
2 to investors be made monthly?

3 A No, we did not.

4 Q Did other underwriting firms interpret this
5 provision the same way that the Raney/Hutton/Lasater
6 group did?

7 A I think they did. You know, the way I see
8 this is it's just one part of the steps of the cash
9 flows of the money from -- to get from folks that pay
10 their driver's license to the bond account to make
11 payments on bonds or certificates. I didn't -- we
12 never interpreted that as having any requirement for
13 a particular payment structured investor; there would
14 be no purpose for that. This was just a step in the
15 cash flow.

16 Q Which underwriting groups, other than the
17 Raney/Hutton/Lasater group interpreted this provision
18 the same way as did the Raney/Hutton/Lasater group?

19 A I think everybody else did such as
20 Stephens, George K. Baum. I think Merrill Lynch
21 presented a proposal. Dean Witter, several other
22 firms. I think they received eight proposals, and I

1 think that the only one that was structured -- there
2 was only one structured that absolutely required
3 monthly payments to investors.

4 Q Okay. What was E.F. Hutton in May of 1985?

5 A What were they? They were a large -- one
6 of the big investment houses that had probably as
7 much credibility in at least certain areas of public
8 finance as any other firm. They were one of the big
9 powerhouse Wall Street firms.

10 Q Were they one of the largest investment
11 firms in the country at that time?

12 A I would characterize them as such.

13 Q Did they have one of the largest retail
14 brokerage networks in the country at that time?

15 A They certainly did.

16 Q Did you believe that the presence of the
17 E.F. Hutton firm within the Raney/Hutton/Lasater
18 proposal helped make the proposal attractive?

19 A We did, we certainly did.

20 Q Why was that?

21 A Because of what you mentioned about their
22 retail distribution. In any bond proposal, one of

1 the big keys for an issuer is what interest rate they
2 will end up paying and that has a lot to do with how
3 effectively your team can distribute bonds.

4 And so a firm with a significant retail
5 distribution network like E.F. Hutton's certainly can
6 demonstrate that -- and then they also had a separate
7 leasing unit that had already established their
8 activity in public finance leasing. They had a
9 strong relationship with the credit enhancers that we
10 felt like would be required to make this transaction
11 work.

12 And you know, ultimately, when a
13 transaction is completed, I think they clearly
14 demonstrated their support and contribution to the
15 effort.

16 Q Does a greater ability to distribute bonds
17 in an underwriting tend to allow an issuer to borrow
18 money more cheaply?

19 A Yes, it does.

20 Q Why is that?

21 A Well, the bigger the sales force, the
22 greater the potential demand for an issuer's bond;

1 the greater the potential demand, the better price
2 they can get for that bond which translates into a
3 lower interest rate so a lower cost to borrow
4 typically.

5 And a borrower that sells their product at
6 retail gets a better price or a lower yield as
7 opposed to some sort of an institutional sale.

8 Q Did any of the other proposals submitted to
9 the State Police Commission contain the presence of a
10 -- strike that.

11 Did any of the underwriting groups that
12 were chosen to make oral presentations to the State
13 Police Commission contain a national investment firm
14 comparable to E.F. Hutton?

15 A I don't think so. I don't recall who was
16 associated with George K. Baum or whether they were
17 by themselves, but I don't believe so.

18 Q At the time of your meeting with David
19 Moseley, was it your impression that the Arkansas
20 State Police were seeking input from other investment
21 firms regarding how to structure the financing?

22 A I felt that to be the case.

1 Q Why was that?

2 A I knew what we'd discussed earlier, the
3 fact that we were doing this was not a secret, and
4 we'd already contacted Stevens -- or we had contacted
5 Stevens about that time about partnering with them so
6 we knew they were working on it, and we knew a
7 transaction this size would certainly draw the
8 interest of a variety of firms, as it did.

9 So I don't think I had any specific
10 knowledge of anybody other than Stevens. I may have.
11 It's clear from what happened that many had an
12 interest in it.

13 Q Did anyone at Stevens, Inc. indicate to you
14 or to anyone else at T.J. Raney that, you know, that
15 Stevens, Inc. had been in contact with the Arkansas
16 State Police regarding the financing of a new police
17 radio system before the State Police Commission
18 requested proposals?

19 A I think when we -- I know we knew that they
20 had contacted the State Police. I don't remember how
21 we became aware of that. It's quite possible I just
22 asked David Moseley who else are you talking to, and

1 he may have told me that. But we followed up our
2 conversations with the Stevens representative, and he
3 confirmed that they had certainly been following the
4 transaction.

5 Q Did you feel that the information that you
6 learned about Stevens, Inc. was secret in any way?

7 A No, I certainly didn't.
8 (Discussion off the record.)

9 BY MR. FEUER:

10 Q Did the Arkansas state purchasing office
11 have a role in reviewing the proposals by
12 underwriters submitted to the Arkansas State Police
13 Commission?

14 A I think they did, and I think it was part
15 of the statutory authority as I recall. Whether or
16 not it was, it was assumed that they would have a
17 role involved in the process. They not only were
18 involved with the financing but also the purchase of
19 the underlying equipment.

20 Q Did anyone from the Arkansas state
21 purchasing office ever express to you the opinion
22 that the Raney/Hutton/Lasater proposal was not the

1 cheapest proposal for the state of Arkansas?

2 A I don't think so. I think the answer to
3 that is no.

4 Q Did you consider the process employed by
5 the police commission to select an underwriter to be
6 a competitive process?

7 A Yes, I did.

8 Q Have the bonds issued by the Arkansas State
9 Police Commission to finance a new radio system gone
10 into default?

11 A No, they have not.

12 Q As far as you know, have investors received
13 all payments of principal and interest that they are
14 entitled to under these bonds?

15 A Yes, they have.

16 Q Were these bonds accompanied by an official
17 statement?

18 A They were.

19 Q What is an official statement?

20 A An official statement is a term for a
21 prospectus in the municipal market. It describes the
22 transaction, security for the bonds, the revenue

1 pledged and other issues or matters of relevance to
2 what an investor is buying.

3 Q Did the official statement that accompanied
4 the bonds issued by the Arkansas State Police
5 Commission identify the underwriters of those bonds
6 and provide some information about the underwriting
7 contract between the State Police Commission and the
8 underwriters?

9 A Yes.

10 Q Do the antifraud provisions of the federal
11 securities laws apply to statements made in that
12 official statement?

13 A It's my understanding that they would.

14 Q Were the bonds issued by the Arkansas State
15 Police Commission reviewed by rating agencies?

16 A They were rated, but they were rated based
17 on the guarantee provided by FGIC, a bond guarantor.
18 They were rated AAA by both S&P and Moody's based on
19 their guarantee.

20 Q As part of that rating process, would S&P
21 and Moody's have had occasion to review the
22 underwriting arrangements between the Arkansas State

1 Police Commission and the underwriters?

2 A In that particular transaction they
3 probably didn't do much of a review on the specific
4 transaction. They generally get acquainted with the
5 transaction, rely primarily on the underwriting of
6 FGIC, but I don't think rating agencies really ever
7 have a lot of interest in underwriting relationship
8 with an issue anyway. In 1992 these bonds actually
9 were refunded. We refinanced those bonds and we did
10 those based on a rating by S&P on a stand-alone basis
11 without insurance. So ultimately they were rated
12 independently on their own merit when we did
13 refinancing transaction in 1992.

14 Q Was that refinancing transaction entered
15 into in 1992 because of a change in interest rates
16 between 1985 and 1992?

17 A Yes.

18 Q And what was that?

19 A Rates went down significantly, and so just
20 like a number of issuers, the State Police Commission
21 was able to refund its outstanding debt and lower its
22 net debt service.

1 MR. FEUER: I have no more questions at
2 this time.

3 EXAMINATION

4 BY MR. O'CALLAGHAN:

5 Q I have a couple follow-up questions. It
6 won't be long.

7 A Okay.

8 Q Mr. Feuer had asked you if you'd been told
9 that in order to get the contract, asked if you'd
10 been told by anyone at several agencies including the
11 governor's office whether in order to get the
12 contract you'd have to join a partnership with
13 Lasater & Company.

14 And you said that you don't remember anyone
15 saying that to you. But did Mr. Drake ever tell you
16 that your group had an inside track on getting the
17 contract?

18 A I don't know what you mean by "inside
19 track."

20 Q Did he ever express to you any kind of an
21 advantage that your group had on getting the contract
22 due to any position that Lasater & Company enjoyed

1 with regard to state government?

2 A You know, I don't think that anybody told
3 us anything about our merits of our ultimate
4 proposal. The only thing I ever recall anybody
5 saying was that if we had the best proposal, we
6 should get the transaction. And I think that's what
7 if Michael Drake ever said anything to me about
8 conversations he had with anybody else whether it was
9 governor or legislator, that's the only thing that I
10 ever recall him telling me. If we had the best deal
11 we'd get the deal. That's the way it should happen.

12 Q Just so I'm clear, he didn't relate to you
13 that your group had an advantage over the other
14 groups due to relationships that anyone at Lasater &
15 Company had with anyone in the state government?

16 A You know, I think we knew that Lasater had
17 been a political supporter of Clinton and we didn't
18 think that was a negative, but we had too and we
19 didn't think that was a negative either.

20 Q Did he ever make comments to that effect?

21 A That because of their relationship they had
22 a lock on the business is that what you mean?

1 Q Had an advantage over the other firms
2 competing or potential advantage?

3 MR. STRASSER: You are asking him did Drake
4 tell him this or are you asking him to report whether
5 Drake said to him that Lasater has an advantage
6 because of Lasater's relation with state officials,
7 is that the question you are asking him?

8 BY MR. O'CALLAGHAN:

9 Q I'll ask -- that question is fine if you
10 respond to that.

11 A What, respond to his? You know, he may
12 have indicated that he felt like they would be
13 favorably received or, you know, that people would
14 discuss with him the merits of the presentation.
15 But, as I recall, the only thing that we ever felt
16 like we had a commitment to, no matter where it came
17 from, was that if we had the best deal we should be
18 selected. We were probably more concerned that if we
19 did have the best deal we wouldn't be selected.

20 Q You stated earlier that the debt service
21 reserve fund -- I'm sorry, did you say earlier that
22 the debt service reserve fund gained interest?

1 A Yes.

2 Q Were any of those funds invested in any
3 securities?

4 A Yes.

5 Q And who were they invested through, what
6 firms?

7 A We -- both our firm T.J. Raney and Lasater
8 handled the execution of the investment of the
9 construction fund and the debt service reserve fund.

10 Q What percentage of those funds were
11 invested in securities?

12 A I think all of them were invested in
13 securities. It was the construction fund was
14 invested in U.S. government Treasury strips is what
15 they're called which are essentially discount
16 securities. And then the debt service reserve I
17 think were in, was invested in agency securities,
18 farm credit agencies as I recall.

19 Q Did the State Police Commission pay fees to
20 Lasater & Company and T.J. Raney for managing that
21 money?

22 A We earned a fee just like any other

1 securities transaction, that was built into the price
2 of the securities.

3 Q Did that include commissions?

4 A That would -- you know, it was typical
5 markup for securities sold on principal basis.

6 Q Do you remember what the rate of the
7 markups were on those?

8 A I do not recall. I do not recall.

9 (Discussion off the record.)

10 BY MR. O'CALLAGHAN:

11 Q With regard to proposals, the proposals
12 that were -- the proposal that you submitted to the
13 Arkansas State Police Commission, was that
14 hand-delivered?

15 A I don't recall, but that was probably what
16 we did.

17 Q Is that typically what you did with
18 proposals?

19 A Well, if it's for somebody that's in town,
20 you know, that's not unusual.

21 Q Do you ever send those through the mail?

22 A Rarely would we send one through the mail.

1 We'd probably send it overnight, Federal Express or
2 some method like that where we had a little bit
3 better control over where it is.

4 Q Is that a common practice in the industry?

5 A I would say so.

6 Q Okay. Mr. Feuer asked you earlier if you
7 were aware of whether all the proposals were
8 submitted on the same day. As far as you know,
9 they're all submitted on the same day?

10 A It's rare for proposals to be submitted in
11 advance of when they're due.

12 Q Mr. Feuer asked you earlier if any other
13 national firms were involved in submitting proposals
14 as a part of a group and you said you weren't sure
15 whether --

16 MR. STRASSER: That's not what he asked.
17 He asked of the four who made oral presentations were
18 there any national firms involved in those other than
19 Hutton.

20 BY MR. O'CALLAGHAN:

21 Q Okay. With regard to the four that gave
22 proposals, oral presentations, to the Committee, are

156

1 you aware was one of those firms Dab Sullivan?

2 A Dab Sullivan division of George K. Baum,
3 George K. Baum was the firm.

4 Q Is George K. Baum a national firm?

5 A I think probably they would be better
6 characterized as a regional firm.

7 Q Mr. Feuer asked you earlier when you became
8 aware when other firms were interested in doing the
9 financing for the radio network.

10 Do you know when the Lasater & Company firm
11 first expressed an interest to the State Police that
12 they were interested in doing the financing?

13 A I do not.

14 Q Do you know if it was before your meeting
15 with Mr. Moseley?

16 A I do not.

17 Q Did Michael Drake ever tell you when he
18 first contacted anyone at the State Police with
19 regard to doing the financing for --

20 A If he did, I don't recall what he said.

21 Q Did he tell you when he first contacted
22 anyone at the governor's office with regard to doing

1 financing for the radio project?

2 A I don't recall.

3 MR. O'CALLAGHAN: I have no further
4 questions at this time.

5 EXAMINATION

6 BY MR. FEUER:

7 Q I've got about two minutes worth.

8 Mr. Young, do you know whether any individuals
9 associated with any of the underwriting firms that
10 submitted proposals to the Arkansas State Police
11 Commission other than the Raney Hutton and Lasater
12 firms were political supporters of Governor Clinton?

13 A I think they were, you know, I assume that
14 they were, probably that worked for a variety of
15 firms that were supporters of Clinton. I think Dubie
16 Sullivan was probably a supporter of Clinton.

17 Let's see, I don't know about the First
18 Capital Resources group, but I'm sure that there
19 were, I know that Edwards and Merrill Lynch, Dean
20 Witter all of them had local offices in Arkansas.
21 And I don't know from personal knowledge, but I would
22 assume that, you know, they all included some people

158

1 that supported Governor Clinton.

2 Q Were the construction funds and debt
3 service reserve funds invested in securities that
4 carried the full faith and credit of the U.S.
5 government?

6 A The construction fund was, but the debt
7 service reserve was actually in an agency security
8 that, you know, has the implied backing of the U.S.
9 government, but it doesn't involve the full faith and
10 credit.

11 Q Are you referring to -- when you refer to
12 agency securities, are you referring to securities
13 that are issued by an agency of the U.S. government?

14 A Such as Federal Farm Credit, Federal Home
15 Loan Bank, Federal National Mortgage Association,
16 anything other than the U.S. government itself and
17 agencies like SBA and GNMA and that sort of thing.
18 There are certain things that involve full faith and
19 credit and certain others don't. There is a little
20 step down, but still involve a very high perception
21 of quality.

22 Q Are construction funds and debt service

1 reserve funds for public infrastructure projects
2 typically invested in Treasury securities and federal
3 agency securities?

4 A It depends upon the state law and the
5 permissible investments. For example, state law has
6 a much shorter list of eligible investments for
7 cities and counties in Arkansas but state agencies
8 can do a little bit more than what cities and
9 counties can do. It just depends upon the relevant
10 law.

11 Q Is it unusual for construction funds or
12 debt service reserve funds associated with public
13 infrastructure of projects to be invested in U.S.
14 government securities or federal agency securities?

15 A No, that's just one of the things you see
16 quite a bit.

17 Q Are the markups that brokers charge on
18 Treasury securities and federal agency securities
19 typically equal to markups on other kinds of
20 securities or greater or smaller than markups on
21 other kinds of securities?

22 A Generally government securities have a

1 lower markup, and I feel like I'm certain that the
2 markups in this particular transaction were
3 comparable to how the securities would have been sold
4 to other investors whether it be financial
5 institutions or pension funds or whatever. So this
6 was just really it was something a little separate
7 from the structuring the bond issue, but it's not
8 unusual for an underwriter or an investment banker to
9 assist the issuer in investing its funds.

10 And in this particular transaction it was
11 probably more important than others because the
12 capturing a higher rate reduced the net cost and it
13 was very critical for the State Police Commission to
14 be able to keep its debt service below a certain
15 level. And, you know, if we invested in something
16 that was shorter term we would have earned less
17 interest and net debt service would have been less
18 than it ended up being. So that was a critical
19 feature of the transaction that was implemented.

20 MR. FEUER: I have nothing more.

21 EXAMINATION

22 BY MR. O'CALLAGHAN:

1 Q I have one more question. In response to a
2 question Mr. Feuer asked you, you said you believed
3 that Dubie Sullivan was a supporter of Governor
4 Clinton?

5 A I thought he was.

6 Q Are you aware of whether any of the people
7 associated with any of the underwriters provided any
8 loans to Governor Clinton's brother Roger?

9 A I am not familiar with anything like that.

10 MR. O'CALLAGHAN: Okay, thanks. That's all
11 I have.

12 MR. STRASSER: Hang on a second.

13 (Witness conferred with counsel.)

14 MR. STRASSER: Only thing that concerned me
15 after an exhaustive deposition is it was not clear to
16 me that it was clear on the record how it was that
17 Raney came to pay Mr. Myers. And I think to clarify
18 that, Mr. Myers got paid after the transaction was
19 done. There was no prior discussion about paying
20 Mr. Myers, nobody asked Mr. Young to pay him. Nobody
21 raised the question of paying Mr. Myers. This is
22 something after the fact Mr. Young decided ought to

162

1 be done rather than having Mr. Mitchum foot the bill
2 permanently. He just thought this is something that
3 ought to happen. That's how it happened. It wasn't
4 clear to me that it was clear on the record from
5 Mr. Young's testimony.

6 BY MR. O'CALLAGHAN:

7 Q Okay. And is it your testimony that it was
8 your idea to pay Mr. Myers?

9 A Nobody asked me to. I simply volunteered
10 to do so after the fact.

11 Q Did the funds for the payment come out of
12 T.J. Raney accounts?

13 A I think they did, I think it did, as I
14 recall we just simply made the payment to Jack Myers
15 with a check from T.J. Raney.

16 EXAMINATION

17 BY MR. FEUER:

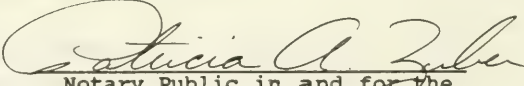
18 Q One question. Did you make any attempt or
19 are you aware of any attempt made by anyone else to
20 hide or disguise that payment on the books of T.J.
21 Raney?

22 A No.

1 (Whereupon, at 6:08 p.m., the deposition
2 was concluded.)
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4 -----
5 PAUL B. YOUNG, JR.
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I, PATRICIA A. ZUBER, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires FEBRUARY 14, 2000

**DEPOSITION OF JAMES L. RUTHERFORD
IN RE: S. RES. 120**

THURSDAY, FEBRUARY 29, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Deposition of JAMES L. RUTHERFORD, called for examination pursuant to notice of deposition, at 9:05 a.m. in Room 534 of the Dirksen Senate Office Building, before BRENDA M. SMON-SKEY, a Notary Public within and for the District of Columbia, when were present:

ALICE S. FISHER, Esq.
Majority Deputy Special Counsel
NEAL E. KRAVITZ, Esq.
Minority Principal Deputy Special Counsel
LANCE COLE, Esq.
Minority Deputy Special Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

LESLIE M. BERGER, Esq.
Zuckerman, Spaeder, Goldstein, Taylor & Kolker
1201 Connecticut Avenue, NW
Washington, DC 20036
On behalf of the Deponent.

CONTENTS

WITNESS	EXAMINATION
James L. Rutherford	
by Ms. Fisher	5
by Mr. Kravitz	93
by Ms. Fisher	101
Errata	4952

PROCEEDINGS

MS. FISHER: Good morning, Mr. Rutherford.

My name is Alice Fisher. I am the deputy special counsel for the Majority. To my left is Neal Kravitz, who is principal deputy special counsel for the Minority.

This deposition today is being conducted pursuant to Senate Resolution 120. I don't know if you and your counsel have had a chance to review it. The Resolution establishes a Special Committee administered by the Banking Committee to conduct an investigation involving Whitewater, Madison Guaranty Savings & Loan, Capital Management Services and other related matters.

Section 1(b)(2) of Senate Resolution 120 authorizes an investigation and public hearings into several issues which will be the focus of today's deposition. This deposition is in advance of public hearings which are ongoing.

At this point, I have no idea if you will be called to testify but you will be notified if you will be.

4

I will ask you a series of questions and ask that you testify under oath. If you don't understand a question, let me know, or if you want a break, let me know.

The stenographer will prepare a record of questions and answers and the deposition will be treated as committee confidential until the commencement of public hearings.

Prior to the hearings, if you are called to testify, you will receive a letter from the Committee saying that you may come and fill out an errata sheet. If you are called to testify, you will be able to have a copy of your deposition four days prior to any testimony.

If your counsel would like to state an appearance for the record.

MS. BERGER: Leslie Berger for Mr. Rutherford.

MR. KRAVITZ: Off the record.

(Discussion off the record.)

Whereupon,

JAMES L. RUTHERFORD

1 was called as a witness and, having first been duly
2 sworn, was examined and testified as follows:

3 EXAMINATION

4 BY MS. FISHER:

5 Q State your name, please.

6 A James L. Rutherford. I go by Skip.

7
8
9 Q Give us an idea of your employment history,
10 briefly.

11 A I graduated from the University of Arkansas
12 in 1972 and began my professional career with
13 Southwestern Bell Telephone Company. I worked there
14 for a couple of years, and in 1974 I joined the staff
15 of McElroy Bank and Trust in Fayetteville, Arkansas,
16 as a director of public relations. I worked there
17 from 1974 to 1978, when I joined the staff of Senator
18 David Pryor of Arkansas as a director of his Arkansas
19 office and worked there from 1979 to 1984.

20 In 1984, I became vice president at
21 Arkansas-Louisiana Gas Company, and I worked there
22 until late 1992, when I joined the Clinton-Gore

1 campaign in Little Rock as a special assistant to the
2 campaign manager.

3 Following the campaign, I worked in the
4 Clinton-Gore transition in Little Rock until the
5 inauguration, at which point I joined the public
6 relations and communications firm of Cranford,
7 Johnson, Robinson, Woods, where I am now senior vice
8 president and have been employed there since that
9 time.

10 Q When you were vice president at
11 Arkansas-Louisiana Gas Company -- is that Arkla?

12 A Yes. Arkla is the parent company. That is
13 sort of the generic term. That's fine.

14 Q What were your responsibilities there?

15 A For the most part, public affairs, press
16 and public relations. I coordinated some government
17 affairs activities, but for the most part, my major
18 responsibility was press and public affairs.

19 Q Who did you report to there?

20 A I reported to Mack McLarty.

21 Q What was his position at Arkla?

22 A He began there, I believe his first title

1 was chief operating officer, and he later moved to
2 chief executive officer. I believe that was in 1985
3 when he was named chief executive officer.

4 Q As special assistant to the campaign
5 manager of the 1992 Clinton-Gore campaign, what
6 generally were your responsibilities and duties?

7 A My major responsibilities centered in two
8 areas. One was in -- there were several toss-up
9 states in the campaign that could have gone either
10 way between President Bush and Governor Clinton.
11 There were people in the campaign who were assigned
12 to focus on those toss-up states, and we developed
13 state-by-state strategies for toss-up states. I
14 worked in that area. That was primary -- that was my
15 major assignment.

16 The secondary thing I did was help
17 coordinate a group called the Arkansas Travelers, who
18 were a group of Arkansans who traveled across the
19 country in support of the campaign.

20 Q When did you join the campaign?

21 A To the best of my recollection, I believe
22 it was in September of '92.

1 Q Of '92?

2 A Yes.

3 Q Did you do any volunteer work or anything
4 for the campaign prior to September of '92?

5 A Yes.

6 Q What type of work did you do as volunteer
7 work? The same type?

8 A A variety of volunteer work. Fundraising,
9 going to events, just general volunteer work, nothing
10 specific, just general whatever, stuffing envelopes.

11 Q Whatever needed to be done basically?

12 A Whatever needed to be done, yes.

13 Q As special assistant to the campaign
14 manager, who did you report to directly?

15 A I reported to David Wilhelm.

16 Q Was there anybody that reported to you?

17 A No.

18 Q During the campaign, did you perform any
19 activities or were involved in anything related to
20 Whitewater Development Corporation matters?

21 A Not in a substantive way. I was aware of
22 it from a press perspective when the stories started

1 appearing in the press, but I did not -- it was not
2 in my area of work or responsibility, so I did not
3 participate in any Whitewater-related matters.

4 Q Did you participate in any meetings where
5 Whitewater was discussed?

6 A I don't recall participating in any
7 meetings. I do recall being asked about it by
8 members of the press, but I don't recall
9 participating in any meetings where it was discussed.

10 Q When you were asked about it by the press,
11 what would you generally do? Would you respond to
12 them or would you send them to someone else?

13 A In the vast majority of cases where there
14 was more than a question of what is Whitewater, if
15 someone needed an answer to a specific point, I would
16 refer them to the press office or to Betsey Wright,
17 who was working in that response area.

18 Q Was there anyone outside the campaign
19 working in that response area?

20 A There probably were, and I'm not sure. I'm
21 not familiar enough with that section to tell you who
22 all may have been working on that at a particular

10

1 time or place. I just know Betsey Wright was there.

2 Q Prior to joining the '92 campaign, were you
3 aware that the Clintons were business partners of Jim
4 and Susan McDougal?

5 A I don't believe I was aware of that. I
6 didn't know anything about the Clintons' business
7 dealings until it appeared in the press.

8 Q How long had you known President Clinton?

9 A I met President Clinton for the first time,
10 as I recall, in 1974 when he was running for
11 Congress. I believe that was the first time that I
12 actually met him. So, we knew each other from that
13 point on.

14 Q Did you work on any other campaigns?

15 A Actually, no. Prior to the 1992 campaign,
16 I had been working on David Pryor campaigns and was
17 pretty much confined to that area. I may have
18 volunteered and certainly supported President
19 Clinton, but in terms of actually working on the
20 campaigns, no.

21 Q Did you ever work with President Clinton
22 when he was governor in the governor's office on any

1 matters dealing with your job at Arkla?

2 MR. COLE: Do you mean work on official
3 state functions or in his capacity as a private
4 employee with the governor's office?

5 MS. FISHER: A totally awfully phrased
6 question, and I apologize.

7 BY MS. FISHER:

8 Q When you were the vice president at Arkla
9 from '84 on, did you ever have occasion to work with
10 the governor's office on any matters?

11 MS. BERGER: The governor's office?

12 MS. FISHER: Yes.

13 THE WITNESS: I'm sure we did on various
14 legislative initiatives, but I can't recall any
15 specifics. It would not have been uncommon for us to
16 have worked together on a common initiative or to
17 have been on opposite sides on the initiative, but I
18 don't recall specifically what that might have been.
19 I would have to think about that and I don't recall
20 any off the top of my head.

21 BY MS. FISHER:

22 Q While you were on the 1992 campaign, did

12

1 you have occasion to work on any matters related to
2 Madison Guaranty?

3 A While I was on the campaign?

4 Q Yes.

5 A No. My only contact with Madison Guaranty
6 was again from press inquiries.

7 Q And it would be the same thing, you would
8 send them to someone else?

9 A Right. The questions would range from very
10 technical in nature to where is the Madison Guaranty
11 building. If someone asked me where was the Madison
12 Guaranty building, I would say it is down on Main
13 Street. But if it was a technical question in nature
14 about transactions, I would say you need to talk to
15 someone else. Let me be clear that I did give
16 directions to the Madison Guaranty building to
17 several members of the press.

18 Q Who on the campaign would you have directed
19 it to?

20 A I would have directed it either to the
21 press office or to Betsey Wright's office. I do not
22 know the names or remember the names of people who

1 worked in those offices. There were several people
2 working in those offices. I just referred them to
3 the generic offices.

4 Q Would the same be true of issues related to
5 Jim McDougal that were raised during the campaign?

6 A Yes. Anything related to that is what I
7 would have done if I could not answer the question.

8 Q Did you know Mr. McDougal prior to the '92
9 campaign?

10 A I met Mr. McDougal when he ran for
11 Congress. I shook his hand once at a rally. I knew
12 him through television appearances and through his
13 appearances in the media, but I did not know him
14 personally. I think he would recognize me and I
15 would recognize him, but I don't know him
16 personally.

17 Q Other than that one time, you have never
18 spoken to him?

19 A To my knowledge, unless it was at some
20 event that I simply do not recall, but I have never
21 had a substantive discussion with Mr. McDougal. I
22 just don't know him that well.

14

1 Q Would the same be true for Susan McDougal?

2 A I may have met Susan McDougal at some
3 social function years ago. I certainly have seen her
4 picture on television and in the newspaper, but I do
5 not know her.

6 Q Did you have any discussions or meetings
7 related to issues involving the Rose Law Firm during
8 the 1992 campaign?

9 A No, other than, again, there was a lot of
10 press interest in the Rose Law Firm, and I would
11 periodically direct people to where the Rose Law Firm
12 offices were. I could go into that at great detail.
13 I could tell you there were a lot of people that
14 wanted to come take a picture of the building, there
15 were a lot of television newscasters who wanted to
16 get file footage of the Rose Law Firm. There were
17 people that would camp out there all day waiting to
18 see people walk in and out of the Rose Law Firm.

19 It was not unusual for somebody to say
20 could you direct me to the Rose Law Firm. I did
21 that.

22 MR. COLE: I think someone should develop a

1 Whitewater map of Little Rock, all the hot spots.

2 MR. KRAVITZ: I think you are the man,
3 Lance.

4 THE WITNESS: When we take a break, I will
5 tell you some funny stories. You will be surprised
6 at some of the places people are wanting to visit.

7 Yes, the question, did I get questions, the
8 answer to that is yes. If there were specific
9 questions, I would refer them to the press office.

10 BY MS. FISHER:

11 Q Were you personally acquainted with the
12 First Lady prior to the 1992 campaign?

13 A Yes.

14 Q Could you tell me when you first met her
15 and what the nature of the relationship was.

16 A Sure. I believe the first time that I met
17 Mrs. Clinton was during the 1974 Congressional
18 campaign. Over the years, I got to know her better,
19 particularly when I was working on Senator Pryor's
20 staff and Governor Clinton was governor, because we
21 both had a very strong interest in education, and we
22 would talk frequently, regularly about

1 education-related issues.

2 Actually, from a personal perspective,
3 Chelsea Clinton and my daughter played in the same
4 summer softball league, I believe in the spring and
5 the summer, called the Hillcrest Softball League.
6 One year they were on the same team. So, like most
7 parents when their children were participating in
8 sports, we would go to the ball games.

9 So, we found ourselves sitting together
10 many occasions at the ballpark rooting for our
11 children. You could bond at the ballpark, as parents
12 do, and that is exactly what happened. On many
13 occasions, the Clintons, both the Governor and the
14 First Lady, but if the Governor was out of town, the
15 First Lady was there, and we would frequently talk at
16 the ballpark, mostly about baseball and softball, but
17 we developed a personal friendship through our
18 children.

19 Q During the 1992 campaign, did you become
20 aware of issues involving the Rose Law Firm preferred
21 stock, the Arkansas Securities Commission and Beverly
22 Bassett Schaffer?

1 MS. BERGER: Wait a minute.

2 BY MS. FISHER:

3 Q I want to try to roll it all up in the same
4 thing.

5 MS. BERGER: Are you asking if he learned
6 about it through the press?

7 MS. FISHER: Yes, if he became aware.

8 THE WITNESS: Well, I became aware of
9 Whitewater during the 1992 campaign. I believe it
10 was Jeff Gerth who wrote the first story. I
11 certainly became aware of the issue in general.
12 Whether I became aware of every little detail, I
13 don't recall and don't remember, but I was aware of
14 the issue because it became a major press story.

15 BY MS. FISHER:

16 Q Did you become aware of an issue relating
17 to Beverly Bassett Schaffer during the 1992
18 campaign? I will try to be more specific.

19 A Well, I don't recall when I became aware of
20 that issue. I certainly knew of that issue and
21 probably learned about it from the press. I don't
22 exactly know when. I would think when the story

18

1 first appeared in the press would be the likelihood
2 of when I first became aware of the story, and I
3 don't know what time that was.

4 Q Did you have any discussions with anyone
5 about Beverly Bassett Schaffer during the 1992
6 campaign?

7 A I don't recall having any discussions
8 during the 1992 campaign about Beverly Bassett
9 Schaffer.

10 Q Do you recall speaking to Ms. Schaffer
11 about her press statements or any other issues during
12 the 1992 campaign?

13 A Do I recall speaking to Ms. Schaffer during
14 the time period of the '92 campaign?

15 Q Yes.

16 A No, I don't recall that, although it is
17 possible that I could have talked to Beverly Bassett
18 Schaffer because we have been friends for over 25
19 years. But I don't recall talking specifically about
20 her statements.

21 Q Do you recall speaking to her with regard
22 to Madison Guaranty Savings & Loan?

1 MS. BERGER: During the campaign?

2 MS. FISHER: During the campaign.

3 THE WITNESS: As I said, I don't recall
4 speaking to her during the campaign, but it is
5 possible that we could have discussed a press story
6 which might have appeared based on our friendship.
7 But I don't recall any -- I don't remember that, I
8 don't recall it. But it could have been possible
9 that we might have talked.

10 BY MS. FISHER:

11 Q Did there come a time after the 1992
12 campaign where you did speak to Ms. Schaffer
13 regarding Madison Guaranty?

14 A I don't recall talking to Beverly Bassett
15 Schaffer, although it is possible. She might have
16 gotten on the phone during one conversation that I
17 had with Archie Schaffer about Whitewater. I define
18 Whitewater as all-encompassing.

19 Q When did that conversation with Archie
20 Schaffer take place?

21 A I don't recall the date, but I do recall
22 the incident. Beverly Bassett Schaffer had been

20

1 stalked, and Archie and I were discussing that on the
2 phone. He told me how upset he and his family were
3 and that he had taken a picture of the stalker and
4 was releasing it to the press.

5 He asked me if I knew anything, if I had
6 ever heard of anybody being stalked like that, and I
7 responded no.

8 It was during that conversation that
9 Beverly might have gotten on the phone. I don't
10 remember. I remember that he was upset and said she
11 was upset. I simply don't recall whether I talked to
12 her at that time, but it was around the time that she
13 was stalked, and subsequently that incident did
14 appear in the press. I don't remember the date, but
15 I do know it was in the press.

16 Q Would it be consistent with your
17 recollection if that occurred sometime in December
18 1993, January 1994? Would that be around the time?

19 A I would think that would be appropriate,
20 around that time. I just don't know the specific
21 date.

22 Q Now, did you call Mr. Schaffer or did he

1 call you?

2 A I don't recall who made the phone call at
3 that particular time. My assumption is, and it is
4 only an assumption, that he called me to inform me
5 about the stalking, but I simply don't remember.

6 Q Did anyone ask you to call him?

7 A No.

8 Q Do you recall reporting your conversation
9 to anyone?

10 A I don't recall reporting it to anyone. I
11 recall that it was reported in the press and became a
12 topic of widespread discussion among a lot of people,
13 including other members of the press, but I don't
14 recall reporting it to anyone.

15 Q Did you have any other conversations with
16 Mr. Schaffer?

17 A I did. I had another conversation sometime
18 later. The context of that conversation was, again,
19 Mr. Schaffer was relating to me, as I recall, three
20 major concerns. One was the stalking. The second
21 was the overwhelming volume of press calls that they
22 were receiving, both at work and at home. The third

22

1 was some misleading, not factual, erroneous press
2 accounts from their perspective that were appearing.
3 In that context, we talked about how to respond to
4 those overwhelming press calls and what he thought
5 were erroneous press reports.

6 In that discussion, the subject of a press
7 conference came up. I don't know whether I initiated
8 it or whether Mr. Schaffer initiated the press
9 conference idea.

10 MR. COLE: When you say a press conference,
11 do you mean Ms. Schaffer giving a press conference?

12 THE WITNESS: Yes, Ms. Schaffer giving a
13 press conference.

14 BY MS. FISHER:

15 Q What was that discussion about the press
16 conference?

17 A The discussion about the press conference
18 was again in the context that she was being deluged,
19 that they were being deluged with press calls and
20 that they felt like many of the stories were not
21 accurate or were not completely factual.

22 In the discussion that Archie and I were

1 having, we brainstormed about one way to deal with
2 that, to deal with the volume of the press calls,
3 plus concern about erroneous reports, was to hold a
4 press conference.

5 In that discussion, I said to him, as we
6 were both going back and forth brainstorming, I said
7 this is something that you should think carefully
8 about before you do it, you should feel totally
9 comfortable about holding a press conference, it
10 should be something that you all are very comfortable
11 with on your own, because it may or may not be a good
12 idea.

13 And secondly, if I were you and were going
14 to hold a press conference of this magnitude, then I
15 would consult a Paul Begala or a Paul Begala type who
16 had had experience in national press matters to get
17 their counsel before doing this because I or anybody
18 I knew did not have that kind of experience to deal
19 with the huge volume and huge national interest that
20 this issue had generated.

21 Q Who initiated this phone call, you or
22 Mr. Schaffer?

1 A I do not remember who initiated the phone
2 call. I just remember that the press conference idea
3 came up in the context of his concerns about the
4 stalking, the overwhelming volume and the erroneous
5 reports.

6 Q So, to the best of your recollection,
7 Mr. Schaffer is the one that raised the idea of a
8 possible press conference?

9 A No, I didn't say that. I said I don't know
10 whether it was him or me. I can't remember. We were
11 brainstorming about how to deal with this issue. But
12 when the issue was raised, I said you need to think
13 through this very carefully because of the huge
14 national interest and as someone who had not had any
15 experience in dealing with a national press
16 conference.

17 Q Had you spoken to anyone about a possible
18 press conference by Beverly Bassett Schaffer prior to
19 this phone call with Archie Schaffer?

20 A To the best of my recollection, I don't
21 recall the specifics of the discussion about a
22 possible press conference. No one asked me, to the

1 best of my recollection, to contact Beverly Bassett
2 Schaffer about a press conference. I could have had
3 discussions with people about the Beverly Bassett
4 Schaffer press issues because they were certainly in
5 the forefront of the press. But no one asked me that
6 I can completely recall, to the best of my
7 recollection, no one ever asked me to contact Beverly
8 Bassett Schaffer.

9 Q At the end of this conversation with
10 Mr. Schaffer, was there any decision made as to what
11 the next step was?

12 A No. In fact, I think -- I believe his
13 response was, well, let us think about that.

14 Q Did you have a subsequent conversation with
15 him?

16 A I don't recall him -- he may have told me
17 that they decided not to have one. I don't recall
18 that. It is possible that that could have occurred.
19 I didn't feel any obligation that he had any
20 obligation to call me back, because, again, we were
21 brainstorming and it was not "I'm expecting an
22 answer."

1 MR. KRAVITZ: Excuse me one second. Did
2 you testify when this conversation with Mr. Schaffer
3 occurred, the one in which a possible press
4 conference by Ms. Schaffer was discussed?

5 THE WITNESS: She asked me if I knew the
6 time, and I told her I didn't recall the exact time.

7 BY MS. FISHER:

8 Q It was sometime after the first
9 conversation?

10 A It was afterwards, because the subject of
11 the stalking had come up. So, I knew it was after
12 that. The stalking was one of the three issues.

13 Q Do you recall how shortly after? Was it in
14 the same month, weeks?

15 A No. I would imagine it was in that time
16 period that you outlined, but I simply don't recall
17 that.

18 MR. KRAVITZ: You mean December '93,
19 January '94?

20 THE WITNESS: I think it was in that time
21 period, because that's when the Beverly Bassett
22 Schaffer press siege was underway. But I don't

1 recall the exact time.

2 BY MS. FISHER:

3 Q Do you recall talking to anyone about this
4 issue, about this issue of a press conference after
5 your discussion with Archie Schaffer?

6 A I do not recall that at all.

7 Q Do you recall discussing Beverly Bassett
8 Schaffer or issues surrounding Beverly Bassett
9 Schaffer with anyone after this conversation with
10 Mr. Schaffer?

11 A It is possible that I discussed issues
12 about Beverly Bassett Schaffer with others if they
13 appeared in press reports, because frequently people
14 would call regarding press issues. But I do not
15 recall the specifics of any conversation.

16 Q Did you have any conversations with anyone
17 at the White House?

18 MS. BERGER: About?

19 MS. FISHER: About Beverly Bassett
20 Schaffer.

21 MS. BERGER: At any time?

22 MS. FISHER: I will ask first in this time

28

1 period, since this is what we are focusing on.

2 MS. BERGER: Wait a minute. Did he have
3 any conversations with anyone at the White House
4 during this time period on any subject?

5 MS. FISHER: Relating to Beverly Bassett
6 Schaffer.

7 THE WITNESS: It is possible that I had
8 conversations related to Beverly Bassett Schaffer. I
9 do not recall the specifics. I do recall that to the
10 best of my recollection, no one at the White House
11 ever asked me to contact Beverly Bassett Schaffer.

12 BY MS. FISHER:

13 Q Do you recall discussing with anyone at the
14 White House that you were going to contact her?

15 A I do not recall discussing with anyone at
16 the White House that I was going to contact her.

17 MR. KRAVITZ: Just so the record is clear,
18 I don't think there is any evidence that
19 Mr. Rutherford did contact Ms. Schaffer or ever had
20 an intention of contacting Ms. Schaffer. There has
21 been testimony about conversations with
22 Mr. Schaffer. I want to make sure there is nothing

1 misleading in our record.

2 MS. BERGER: Just to follow up on that, his
3 testimony is clear that he doesn't know if he
4 contacted Mr. Schaffer or if Mr. Schaffer contacted
5 him.

6 MS. FISHER: Sure, sure. I didn't mean to
7 imply anything.

8 BY MS. FISHER:

9 Q I just asked did anybody ask you to do that
10 and then did you discuss that you were going to do
11 that.

12 A No, I did not.

13 MR. KRAVITZ: Can I just ask --

14 MS. FISHER: Yes.

15 MR. KRAVITZ: I think it may be appropriate
16 to ask one clarifying question. You have testified
17 that no one at the White House, at least in this time
18 period, December '93-January '94, ever asked you to
19 contact Beverly Bassett Schaffer?

20 THE WITNESS: To the best of my
21 recollection, that is true.

22 MR. KRAVITZ: Did anyone at the White House

30

1 during that same time period, December '93 through
2 January '94, ever ask you to contact Archie Schaffer
3 about Beverly Bassett Schaffer?

4 THE WITNESS: To the best of my
5 recollection, no.

6 MR. KRAVITZ: Did anyone at the White House
7 during that time period ask you to contact
8 Ms. Schaffer through any other third person?

9 THE WITNESS: Mr. Kravitz, to the best of
10 my recollection, no.

11 MR. KRAVITZ: Thanks, Alice.

12 MS. FISHER: Sure. I appreciate that.

13 BY MS. FISHER:

14 Q I may have already asked this, but did you
15 discuss with anyone at the White House your
16 conversations with Mr. Schaffer?

17 MS. BERGER: After they occurred?

18 MS. FISHER: Yes.

19 THE WITNESS: Alice, to the best of my
20 recollection, I don't recall doing that, although it
21 is possible that I might have said I talked to Archie
22 Schaffer today and Beverly Bassett Schaffer is very

1 upset about the stalking, about the volume of press
2 calls and about the erroneous press reports. But I
3 don't recall doing that. I don't remember doing that
4 at all.

5 BY MS. FISHER:

6 Q Is there any one in particular or more than
7 one person that you had contact with at the White
8 House during this time?

9 MS. BERGER: This time is?

10 BY MS. FISHER:

11 Q Take December '93 to February '94.

12 A May I clarify that question?

13 Q Yes.

14 A On the subject -- on any subject?

15 Q Yes.

16 A The answer to that question is probably
17 during that particular time period the person that I
18 had the most contact with would be Mack McLarty.

19 Q Is there anyone other than Mr. McLarty at
20 the White House that you would have contact with or
21 that you would have reason to have contact with
22 during December '93 to February '94?

1 A I could have talked to several people about
2 a variety of different issues related to the press.
3 People would frequently sometimes call me about an
4 article which appeared in the press and ask me to
5 send them a copy of that article. So, I would say
6 that it is possible that I could have talked to
7 several people during that particular time about a
8 variety of issues.

9 MR. COLE: When you say articles that
10 appeared in the press and they asked you to send them
11 copies, are you referring to the local press, the
12 Little Rock newspapers?

13 THE WITNESS: That's right, and the
14 Arkansas press, non-Little Rock papers.

15 BY MS. FISHER:

16 Q Do you recall any discussions with
17 Mr. McLarty during December 1993 to February 1994
18 with regard to Madison, Whitewater or Beverly Bassett
19 Schaffer?

20 A I do not recall any discussions with him
21 regarding those subjects, although it is possible we
22 may have discussed a press article. But I don't

1 recall any discussions with him about Beverly Bassett
2 Schaffer.

3 Q What about Madison Guaranty?

4 A Same.

5 Q And the same would go for Whitewater?

6 A Yes.

7 Q Did you have any discussions with Bruce
8 Lindsey in this time period with regard to anything
9 related to Whitewater or Madison?

10 A I think the same answer would apply to
11 Mr. Lindsey that applied to Mr. McLarty, that I may
12 have discussed with him articles which appeared in
13 the press, but I don't recall having any specific
14 conversations with him about Whitewater or other
15 related subjects. We could have discussed -- it is
16 possible we could have discussed an article which
17 appeared in the press. That would be possible.

18 Q Do you recall having any discussions with
19 anyone in the White House counsel's office during
20 this time period?

21 MS. BERGER: Can you tell him who that
22 would be. I don't think he would know.

1 MR. KRAVITZ: I think you ought to -- I
2 don't know whether you are intending your question
3 also to be limited as to subject matter. If it is
4 not, I object.

5 MS. FISHER: I'm just trying to get the
6 flow going, Neil.

7 THE WITNESS: You are talking about the
8 Whitewater-related stuff?

9 BY MS. FISHER:

10 Q Yes, Whitewater, Madison, Beverly Bassett
11 Schaffer.

12 That would be Neil Eggleston?

13 A I don't recall.

14 Q Bill Kennedy?

15 A I don't recall any of those specific
16 conversations. But Alice, it is possible, again
17 relating to a press story in Arkansas, that someone
18 could have called and said there was an article in
19 the press that I am interested in, could you please
20 fax me a copy of that article or read me a copy of
21 that article or Xerox me a copy of that article.

22 So, that would not be uncommon.

1 Q Let me ask you this. In your present
2 position as senior vice president of Cranford,
3 Johnson, Robinson & Woods, do you have regular
4 dealings with the White House? Do you work for them
5 in any capacity?

6 A I do not work directly for the White House
7 in any capacity, but I do have regular dealings
8 because of my long association with Mr. McLarty and
9 the fact that Mr. Lindsey and I worked together on
10 Senator Pryor's staff.

11 Q Do you visit the White House on occasion?

12 A Yes.

13 Q On a regular basis?

14 MS. BERGER: What do you mean by
15 "regular"?

16 BY MS. FISHER:

17 Q You tell me. How often do you go?

18 A I don't recall, Alice, the last time I was
19 at the White House.

20 Q Why don't you tell me like late '93, early
21 '94.

22 A I spent more time in '93 at the White

1 House.

2 MS. BERGER: She asked you about late '93
3 to early '94.

4 MR. KRAVITZ: If you remember.

5 THE WITNESS: I don't recall exactly, but I
6 did spend some time at the White House during that
7 period.

8 BY MS. FISHER:

9 Q Do you recall being at the White House in
10 January 1994?

11 A Sitting here today, I don't recall exactly
12 when I was at the White House. But it is possible
13 that I was there. But I don't recall the dates.

14 Q If you were at the White House, when you
15 were at the White House in this time period -- again,
16 I want to focus on December 1993 to February 1994 --
17 did you have any discussions with anyone at the White
18 House with regard to Whitewater?

19 MS. BERGER: Wait a minute. You are asking
20 him from December '93 to February '94 if he recalls
21 having discussions with people physically at the
22 White House about Whitewater?

1 MS. FISHER: Yes.

2 MS. BERGER: I don't think he can answer
3 that question given that he said he doesn't recall
4 whether he was at the White House during that time
5 period.

6 MS. FISHER: I misunderstood. I thought he
7 said he didn't know how often he was there.

8 MS. BERGER: You can clarify, but I think
9 he said that he wasn't certain if he had been at the
10 White House December '93 to February '94, because he
11 couldn't pinpoint dates sitting here today.

12 MS. FISHER: All right. I apologize.

13 BY MS. FISHER:

14 Q Have you ever been present at the White
15 House physically and had a discussion with anyone at
16 the White House with regard to Whitewater?

17 MS. BERGER: At any time?

18 BY MS. FISHER:

19 Q At any time.

20 A I don't recall having a Whitewater
21 discussion at the White House, although it again is
22 possible that in relation to a press article or to an

38

1 article which appeared in print that I might have.

2 Q Did you ever attend any meetings at the
3 White House where Whitewater, Madison or Mr. McDougal
4 were discussed?

5 A I don't recall ever attending a meeting on
6 those subjects.

7 Q Do you recall being at the White House and
8 having any discussions related to Capital Management
9 Services or David Hale?

10 A I don't recall that.

11 Q Do you recall having any discussions with
12 Betsey Wright relating to Beverly Bassett Schaffer?

13 MS. BERGER: At any time?

14 MS. FISHER: Yes.

15 BY MS. FISHER:

16 Q At any time.

17 MR. COLE: He testified he may have
18 referred some press inquiries to her during the
19 campaign. Are you focusing post-campaign?

20 MS. FISHER: I'm focusing other than press
21 inquiries.

22 THE WITNESS: I don't recall having

1 conversations with Betsey Wright other than
2 press-related matters.

3 MR. KRAVITZ: You mean on any subject?

4 THE WITNESS: No. On Beverly Bassett
5 Schaffer.

6 MR. KRAVITZ: You were right, that is what
7 the question was.

8 THE WITNESS: I --

9 MR. KRAVITZ: You may want to ask that
10 question so the record is clear.

11 MS. BERGER: Let her ask the questions.

12 MS. FISHER: Read back the question,
13 please.

14 (The reporter read the record as requested.)

15 THE WITNESS: I don't recall having any
16 discussions with Betsey Wright relating to Beverly
17 Bassett Schaffer, although it is possible. I do know
18 that I referred press inquiries about Beverly Bassett
19 Schaffer and related issues to her during the
20 campaign.

21 BY MS. FISHER:

22 Q So, after the 1992 campaign, do you recall

1 having any discussions with Betsey Wright relating to
2 Beverly Bassett Schaffer?

3 A Sitting here today, to the best of my
4 recollection, Alice, I don't recall that, although,
5 again, if it were an issue in the press, it might
6 have been possible, but I do not recall that.

7 Q So, even after the campaign, you would on
8 occasion refer press inquiries to Betsey Wright; is
9 that correct?

10 A No. On occasion after the campaign I would
11 talk with Betsey Wright about current events. But it
12 would be in the general context of current events.
13 It could have been at some point during that time
14 Beverly Bassett Schaffer might have been a current
15 event.

16 Q Do you recall any discussions with Betsey
17 Wright since the 1992 campaign relating to Jim
18 McDougal or Madison Guaranty?

19 A I do not.

20 Q Do you recall any discussions with Betsey
21 Wright after the 1992 campaign where David Hale or
22 Capital Management Services was discussed?

1 A I do not. To the best of my recollection,
2 I do not.

3 Q Do you recall having any conversations with
4 Mr. Harold Ickes relating to Madison Guaranty?

5 MS. BERGER: At any time?

6 MS. FISHER: Yes.

7 THE WITNESS: To the best of my
8 recollection, Alice, I do not, although it is
9 possible, again, in relation to a press story that we
10 may have, but I do not remember that.

11 BY MS. FISHER:

12 Q Do you know Mr. Ickes?

13 A I do know Mr. Ickes.

14 Q Do you recall or could you give me an
15 approximate number of times you have spoken to
16 Mr. Ickes since he has been at the White House?

17 MS. BERGER: Can you give him the date that
18 Mr. Ickes has been in the White House.

19 MS. FISHER: Mr. Ickes went to the White
20 House in January 1994.

21 MS. BERGER: Can you tell her how often you
22 might have spoken to Mr. Ickes since January 1994?

1 THE WITNESS: No. Simply sitting here
2 today, I can't recall that. I'm sorry. I have
3 talked with him not frequently, but I have talked
4 with him.

5 BY MS. FISHER:

6 Q Do you recall any discussion with Mr. Ickes
7 where Beverly Bassett Schaffer came up in the
8 conversation?

9 A To the best of my recollection, I do not
10 recall that, although, again, as I testified, that
11 may have come up as a result of a press story which
12 appeared, but I simply do not recall that.

13 Q So, you don't recall whether it happened or
14 it didn't happen?

15 A I don't believe it happened. But it would
16 not be uncommon to have a discussion with Mr. Ickes
17 about a story which appeared in the press.

18 Q Do you know Michael Waldman?

19 A I do know Michael Waldman.

20 Q Did you have a discussion with Michael
21 Waldman about Beverly Bassett Schaffer or where
22 Beverly Bassett Schaffer arose, the name arose in the

1 conversation?

2 A It is possible that we might have talked
3 about Beverly Bassett Schaffer, but I don't remember
4 it, and I don't believe it happened. But again, no
5 one at the White House ever asked me, to the best of
6 my recollection, to contact Beverly Bassett
7 Schaffer.

8 Q Did anyone at the White House ever ask you
9 to directly or indirectly contact any individual
10 other than people in the press with regard to matters
11 related to Whitewater, Madison, Capital Management or
12 David Hale?

13 MS. BERGER: Alice, I don't understand that
14 question. Can you break it up a little bit? There
15 are so many pieces to it, I'm not sure I follow it.

16 MS. FISHER: Yes. It is a long question.
17 We can take it one at a time.

18 BY MS. FISHER:

19 Q It kind of plays off your last answer. I
20 just want to go into people other than Beverly
21 Bassett Schaffer.

22 A Okay.

1 Q I want to know if there was ever a time
2 when someone from the White House asked you to
3 contact someone else, other than people of the press,
4 because I'm not interested if they told you to call
5 The Arkansas Democrat Gazette and tell them this is
6 not true or whatever, to contact any individual other
7 than people of the press with regard to matters
8 related to Madison. I will just take them one at a
9 time.

10 A To the best of my recollection, no.

11 Q That would be -- they did not ask you to
12 contact someone directly or indirectly?

13 A That is correct, to the best of my
14 recollection.

15 Q I wanted to ask the same question with
16 regard to Capital Management Services or David Hale.

17 A To the best of my recollection, no.

18 Q Jim McDougal?

19 A To the best of my recollection, no.

20 Q Susan McDougal?

21 A To the best of my recollection, no.

22 Q What about the Rose Law Firm issues?

1 A To the best of my recollection, no.
2 MR. KRAVITZ: Can we take a break?
3 MS. FISHER: Sure.
4 (Recess.)
5 BY MS. FISHER:
6 Q Mr. Rutherford, I want to go back for a
7 minute to the contacts you had with Archie Schaffer.
8 Did you discuss those conversations with
9 Mr. Tisdale?
10 A You are talking about both conversations?
11 Q Either.
12 A Either conversation. To the best of my
13 recollection, no.
14 Q Did you discuss Beverly Bassett Schaffer at
15 all with Mr. Tisdale after the 1992 campaign?
16 A I believe that I had a conversation with
17 Mr. Tisdale regarding that issue as it appeared in
18 the press.
19 Q About approximately what time?
20 A I don't recall the exact time, but when the
21 Beverly Bassett issue appeared in the press. I
22 believe at some point I could have visited with

1 Mr. Tisdale about the press issue.
2 Q Do you recall the substance of your
3 discussion?
4 A No, I don't recall it. I'm sure it was a
5 press-related matter. I simply don't recall that. I
6 know that Mr. Tisdale's firm was also getting press
7 calls.
8 Q Do you recall whether he called you about
9 that or you called him about that?
10 A I don't know. I don't know.
11 MS. BERGER: Can we take a break for a
12 minute?
13 MS. FISHER: Yes.
14 (Recess.)
15 BY MS. FISHER:
16 Q Did you want to add anything to your last
17 answer?
18 A No.
19 Q Do you recall any other conversations with
20 Mr. Tisdale during this time period related --
21 MS. BERGER: I don't believe he has
22 testified to any conversations with Mr. Tisdale, so

1 when you ask a question that says "any other
2 conversations," you assume that a conversation
3 occurred.

4 MS. FISHER: Sorry.

5 BY MS. FISHER:

6 Q Do you recall any discussions with
7 Mr. Tisdale?

8 MS. BERGER: Regarding Whitewater?

9 MS. FISHER: Regarding Whitewater, Madison,
10 Capital Management, David Hale or Beverly Bassett
11 Schaffer.

12 MR. KRAVITZ: When?

13 MS. FISHER: Post-1992 campaign.

14 THE WITNESS: Yes.

15 BY MS. FISHER:

16 Q Could you tell me the substance of those
17 conversations.

18 A Mr. Tisdale advised me on a document
19 request that --

20 MS. BERGER: Wait a minute, wait a minute.
21 (Counsel conferred with the witness.)

22 MS. BERGER: Mr. Tisdale represented the

1 witness in connection with a Whitewater-related
2 subpoena, and obviously any discussions they had were
3 privileged.

4 THE WITNESS: That was the confusing part,
5 I think.

6 BY MS. FISHER:

7 Q I understand. Do you have documents in
8 your possession which relate to Whitewater or
9 Madison?

10 MS. BERGER: That question is so broad I
11 don't think he can answer it. What kind of documents
12 do you want to know about?

13 BY MS. FISHER:

14 Q Other than press articles, do you have any
15 documents in your possession, custody or control
16 which relate to Whitewater or Madison?

17 A No.

18 MS. BERGER: Were documents produced in
19 connection with the subpoena that you received, to
20 your knowledge? Were any documents produced? Why
21 don't we consult.

22 THE WITNESS: I'm not quite sure I can

1 define that.

2 (Counsel conferred with the witness.)

3 MS. BERGER: I think the confusion stems
4 from the fact that Mr. Rutherford produced documents
5 in response to a subpoena. To the extent that what
6 he produced is encompassed in what you consider a
7 Whitewater-related document, those documents have
8 already been produced to the independent counsel.

9 MS. FISHER: Okay.

10 MS. BERGER: If there are other kinds of
11 documents that you want to ask him about, you should
12 feel free to do so. But I think it is impossible for
13 the witness to answer a question as broad as "are
14 there any Whitewater-related documents," because he
15 doesn't know what you mean by a Whitewater-related
16 document and he certainly doesn't want to be in the
17 position of saying documents don't exist that may
18 exist because he doesn't understand what you are
19 asking about.

20 If there are particular kinds of documents
21 you want to ask him about, you should do that.

22 MS. FISHER: I was trying to get at whether

50

1 you had documents, because we didn't subpoena you for
2 documents.

3 MS. BERGER: He can't answer that question
4 unless you ask him about a specific kind of document,
5 that you want to know if it exists.

6 MS. FISHER: Okay.

7 BY MS. FISHER:

8 Q Mr. Rutherford, at any time did you collect
9 documents? And I'm not talking about press articles
10 that you may or may not have collected. Did you
11 attempt to collect or obtain any documents relating
12 to Whitewater?

13 MS. BERGER: I think I told you there were
14 certain documents produced in response to a subpoena
15 from the Independent Counsel.

16 MS. FISHER: Yes.

17 BY MS. FISHER:

18 Q That was unclear. Other than for purposes
19 of producing documents to another investigative
20 entity, prior to that time -- let's set that aside --
21 at some time in 1992, 1993, 1994, 1995, did you
22 attempt to collect or obtain documents related to

1 Whitewater from any source?

2 MS. BERGER: I don't follow what you mean.
3 I take it you are not including anything that he may
4 have done that falls within the confines of the
5 attorney-client privilege? Are you asking him if he
6 got documents from the White House? Are you asking
7 if he has certain documents in his office? I don't
8 know what you mean by "collect documents during this
9 time period."

10 MS. FISHER: Collect or obtain any
11 documents from any source.

12 MS. BERGER: Other than in connection with
13 the subpoena that he has already testified about?

14 MS. FISHER: I think I said that. Other
15 than in connection with collecting documents to
16 produce pursuant to a subpoena.

17 MS. BERGER: And collect Whitewater
18 documents?

19 MS. FISHER: Or obtain.

20 MS. BERGER: What is a Whitewater
21 document?

22 MS. FISHER: Documents related to

1 Whitewater Development Corporation. Like did he go
2 to someone and say, hey, do you have documents on
3 Whitewater, give them to me. Did he go to the county
4 courthouse and try to collect records together.
5 Those are the examples I'm looking for.

6 MS. BERGER: Why don't you ask him that
7 question so the record is clear.

8 MS. FISHER: We can go the hard way.

9 MS. BERGER: It is very important that he
10 understands what you are asking.

11 BY MS. FISHER:

12 Q Did you at any time attempt to collect
13 Whitewater-related documents from an individual that
14 may have had those documents?

15 A No.

16 Q Did you attempt to obtain
17 Whitewater-related documents from any kind of office
18 building?

19 A No.

20 Q You understand what I'm asking?

21 A I understand. No.

22 Q Did you attempt to obtain any documents

1 related to Madison Guaranty?

2 A No.

3 MS. BERGER: Is it the same premise as your
4 prior question? Did he go to an office building or
5 ask an individual for Madison documents?

6 MS. FISHER: Right.

7 THE WITNESS: No.

8 BY MS. FISHER:

9 Q Did you attempt to obtain documents related
10 to Jim McDougal or Susan McDougal?

11 A No.

12 Q Did you attempt to obtain any documents
13 related to Capital Management Services?

14 A No.

15 MS. BERGER: Just to be clear, you are
16 excluding from all of your prior questions on this
17 press clips?

18 MS. FISHER: Yes, I am.

19 MS. BERGER: Or press statements or press
20 releases?

21 MS. FISHER: Yes, I am.

22 BY MS. FISHER:

1 Q At some point did you become aware of RTC
2 criminal referrals related to Madison Guaranty?

3 A When I read about it in the press.

4 Q Did you have any -- do you recall about
5 approximately what time that was?

6 A I don't know the date. I remember reading
7 it in the press, but I don't know the date.

8 Q Do you recall having discussions with
9 anyone relating to the RTC criminal referrals?

10 A I don't recall any discussions.

11 Q Did you speak to Betsey Wright about it at
12 any time?

13 A I don't recall speaking to Betsey Wright.

14 Q After the 1992 campaign, have you
15 participated in any discussions relating to the First
16 Lady's representation of Madison Guaranty?

17 A No.

18 MR. KRAVITZ: Read that question back,
19 please.

20 (The reporter read the record as requested.)

21 MS. BERGER: I take it you were excluding
22 from that question any conversations he may have had

1 with counsel.

2 MS. FISHER: Yes.

3 BY MS. FISHER:

4 Q I am always excluding conversations you may
5 have had with your counsel.

6 MS. BERGER: Just so that is clear. And
7 any discussions he may have had about articles that
8 appeared in the press about these subjects?

9 MS. FISHER: I wasn't excluding that.

10 THE WITNESS: Well, people may have
11 requested press clippings relating to that issue, but
12 I don't recall any discussion related to that issue.

13 BY MS. FISHER:

14 Q Did you have some sort of role as being a
15 regular contact for people to come to for press
16 clippings or for people to come to discuss these
17 issues?

18 MS. BERGER: What "people" are you
19 referring to?

20 BY MS. FISHER:

21 Q What I'm trying to get at is you say that
22 people may have come to you for press clippings when

1 I ask a question related to Madison or Whitewater or
2 Rose Law Firm, or people may have called you about
3 what they saw in the paper. I'm trying to get some
4 idea if you had some kind of formal or informal role
5 as being the person in Arkansas that people would go
6 to on press matters.

7 A I think I was one person that people would
8 contact if they wanted to get a copy of an article in
9 the press. I'm sure there were others but I think I
10 was one that people might contact.

11 Q Other than to obtain an article, would
12 people generally call you to discuss what was in the
13 press about these matters, people from the White
14 House?

15 MS. BERGER: And "these matters," you are
16 referring to Whitewater?

17 MS. FISHER: Madison, Whitewater.

18 THE WITNESS: Not in a substantive way.

19 BY MS. FISHER:

20 Q Do you recall a discussion with Michael
21 Waldman about plans for Mr. Waldman to come to
22 Arkansas?

1 A I do not recall that discussion.

2 Q Do you recall in late '93 or up to February
3 1994 calling Mr. Waldman for any reason, placing a
4 call to him?

5 A Sitting here today, I cannot recall that.

6 Q Do you recall him calling you for any
7 reason?

8 A Sitting here today, I cannot recall that.

9 Q Do you think it would be likely if
10 Mr. Waldman called you to discuss a possible trip to
11 Arkansas, would it be likely that that would be
12 something that you would recall?

13 A I believe I would recall that. I simply
14 don't recall it.

15 Q Do you recall -- and I may have asked this
16 before. Do you recall discussing any issues relating
17 to Beverly Bassett Schaffer with Mr. Waldman?

18 MS. BERGER: At any time?

19 MS. FISHER: At any time.

20 THE WITNESS: I believe I testified that I
21 didn't recall having a conversation with Mr. Waldman
22 about Beverly Bassett Schaffer, and I don't believe

1 that it happened.

2 BY MS. FISHER:

3 Q I'm going to show you a page of notes from
4 Mark Gearan. I appreciate the fact that you were not
5 at this meeting. This was notes of a meeting that
6 you may know about, that he had at the White House in
7 early January of 1994.

8 MS. BERGER: For the record, can you just
9 tell us when the meeting was.

10 MS. FISHER: Yes, absolutely. It occurred
11 January 7, 1994, according to these notes.
12 Mr. Gearan, along with others from the White House,
13 were discussing Whitewater and Independent Counsel
14 issues at that time.

15 BY MS. FISHER:

16 Q One of the issues that was discussed,
17 according to Mr. Gearan's testimony about his notes,
18 was someone, "PB, BL or Waldman to Arkansas to meet
19 with Beverly Bassett, try to poke holes in their
20 story."

21 On the third page of these notes, and I can
22 let you read them all if you care to, but it has a

1 list of names and it has Mr. Ickes and then beside
2 his name "we can't send PB, BL, MW, it will come out
3 item by item, make sure her story is okay." Then it
4 has a list, "Tisdale and Lindsey firm, Skip, WH pass,
5 PB friend, New York lawyer."

6 Mr. Gearan testified that this Skip is you,
7 Skip Rutherford. Do you know what this could refer
8 to, the "WH pass"? Did you have a White House pass
9 during that period of time?

10 MS. BERGER: What is the period of these
11 notes?

12 MS. FISHER: January 7, 1994.

13 MR. KRAVITZ: Can we just take a one-minute
14 break?

15 MS. FISHER: Sure.

16 (Pause.)

17 MS. BERGER: Please read back the
18 question.

19 (The reporter read the record as requested.)

20 THE WITNESS: First of all, I can't testify
21 as to what Mr. Gearan wrote or what he meant by
22 that. The second question, did I have a White House

1 pass at this time. To the best of my recollection, I
2 did not have a White House pass at this time.

3 BY MS. FISHER:

4 Q Do you recall any discussions about Beverly
5 Bassett Schaffer with Paul Begala?

6 A I don't recall any discussions with Paul
7 Begala about Beverly Bassett Schaffer.

8 Q And it would be your testimony, correct,
9 that no one from the White House asked you to speak
10 with Mr. and Mrs. Schaffer to go through item by item
11 to make sure her story is okay?

12 A That is correct.

13 Q Did you have any conversations with regard
14 to Madison Guaranty with Webster Hubbell at any time?

15 A I can't recall having any conversations
16 with Webster Hubbell about Madison Guaranty.

17 Q Did you have any discussions with
18 Mr. Hubbell about the Rose Law Firm?

19 A I can't recall having any conversations
20 with Web Hubbell about the Rose Law Firm.

21 MS. BERGER: When you say "about the Rose
22 Law Firm," do you intend to mean about the Rose Law

1 Firm's representation of Madison and
2 Whitewater-related matters?

3 MS. FISHER: No. Any issues concerning
4 Rose Law Firm.

5 MR. KRAVITZ: I object to that. It is
6 outside the scope of the resolution. I assume that
7 you meant limited to the subjects in the resolution.

8 MS. FISHER: I'm asking if they did or
9 didn't occur, and then I can limit it.

10 MR. KRAVITZ: You don't have a right to
11 know whether he had conversations with someone about
12 the Rose Law Firm other than with regard to subjects
13 in our resolution.

14 MS. FISHER: Well, that doesn't only relate
15 to Madison. It relates to the Rose Law Firm's
16 investigation done by the RTC, the FDIC and possible
17 investigation related to Mr. Hubbell's billing
18 practices. I would like to know if he had any
19 conversations with Mr. Hubbell about any of those
20 matters.

21 MS. BERGER: That question is fine.

22 THE WITNESS: The answer to that, to the

1 best of my knowledge, is no.

2 MS. FISHER: It is easy if I ask the
3 broader question and limit it.

4 MR. KRAVITZ: It may be easier, but it is
5 inappropriate. You have no right to ask a question
6 that would elicit an answer that he discussed with
7 Mr. Hubbell, for example, something about how the
8 Rose Law Firm decides who makes how much money or the
9 Rose Law Firm's representation of some client that
10 has nothing to do with S. Res. 120.

11 MS. FISHER: All I did was ask the question
12 if the conversation occurred. I did not attempt to
13 elicit any information about the substance of that
14 discussion. You know it has been a regular practice
15 throughout these depositions to do that.

16 MR. KRAVITZ: Not when I have been here.

17 THE WITNESS: I understand.

18 MS. BERGER: I want the record to be clear
19 about what you are asking the witness, because the
20 Rose Law Firm is physically in Little Rock, Arkansas,
21 and the question is so broad that the witness may be
22 confused about what it is that you are asking him

1 about.

2 BY MS. FISHER:

3 Q Did you have any conversations with
4 Mr. Hubbell with regard to the Rose Law Firm's
5 representation of Madison Guaranty?

6 A No, I did not.

7 Q Did you have any discussions with
8 Mr. Hubbell regarding the investigation into the Rose
9 Law Firm for conflict of interest conducted by the
10 RTC and FDIC?

11 A To the best of my recollection, no, I did
12 not.

13 Q Did you have any discussions with
14 Mr. Hubbell with regard to the investigation
15 conducted by the Rose Law Firm into his billing
16 practices?

17 A To the best of my recollection, I did not.

18 Q Did you have any discussions with the First
19 Lady with regard to her representation of Madison
20 Guaranty?

21 A No.

22 Q When did you first become aware that

64

1 Mrs. Clinton had represented Madison Guaranty?

2 MS. BERGER: You mean that the Rose Law
3 Firm had represented Madison Guaranty?

4 MS. FISHER: Yes.

5 THE WITNESS: I don't recall when. I don't
6 recall when.

7 BY MS. FISHER:

8 Q Do you recall when you first learned that
9 the Rose Law Firm had represented Madison Guaranty
10 with regard to a matter involving the Industrial
11 Development Corporation?

12 MS. BERGER: If he ever learned.

13 MS. FISHER: Yes.

14 BY MS. FISHER:

15 Q If you ever learned.

16 A Say that question again, I'm sorry.

17 MS. BERGER: Why don't you ask him whether
18 he is aware of the representation.

19 BY MS. FISHER:

20 Q Did you become aware at some point that the
21 Rose Law Firm represented Madison Guaranty in
22 relation to a matter involving the Industrial

1 Development Corporation land transactions, what has
2 also been referred to as Castle Grande?

3 A Am I aware of that? Is that the question?

4 Q Yes. Did you become aware of that at some
5 point?

6 A I did become aware of that.

7 Q When did you become aware of that?

8 A I don't recall when I became aware of it.

9 Q Do you recall that it was within the last
10 six months or prior to the last six months?

11 A I simply don't recall when I became aware
12 of that.

13 Q Do you believe it would have been 1993,
14 1994? Could you even give me a year?

15 A Alice, I really don't know. It is just not
16 something that is at the forefront of my interest or
17 memory. I just don't know. I am aware of it. I
18 don't know when I became aware of it.

19 Q Do you recall having any discussions where
20 the subject of that representation was brought up?

21 A No.

22 Q Do you recall when you first learned of the

1 investigation and/or indictment of David Hale?

2 MS. BERGER: Again, I think just to be
3 clear, you need to ask him whether he is aware of
4 it.

5 MS. FISHER: Sorry.

6 MS. BERGER: Saying he "first learned"
7 implies that he knows about it.

8 THE WITNESS: I'm aware of it, and to the
9 best of my recollection, I learned about it when it
10 appeared in the press.

11 BY MS. FISHER:

12 Q Do you recall having any discussions with
13 regard to the indictment of David Hale?

14 MS. BERGER: With anyone?

15 MS. FISHER: With anyone.

16 THE WITNESS: Other than members of the
17 press, no.

18 BY MS. FISHER:

19 Q So, you don't recall any discussions you
20 may have had with Mr. McLarty with regard to the
21 indictment or investigation of David Hale?

22 MS. BERGER: Are you asking him whether he

1 recalls having any?

2 MS. FISHER: He said he didn't recall any
3 of the press. I want to be clear he recalls --

4 THE WITNESS: I don't recall having a
5 discussion with Mr. McLarty about David Hale or the
6 indictment of David Hale. We may have discussed a
7 press clipping or a press article, but that would be
8 it. I don't recall any discussion with Mr. McLarty
9 on that.

10 BY MS. FISHER:

11 Q Do you know Mr. Hale?

12 A No.

13 Q Do you recall discussing with anyone the
14 allegations that David Hale was reported to have made
15 against or involving the President?

16 A No.

17 Q Have you had any conversations since 1992
18 with Sam Heuer?

19 A Sam Heuer, the lawyer?

20 Q Yes.

21 A Yes.

22 Q In any of those discussions, did you

1 discuss Madison Guaranty or Jim McDougal?

2 A Yes.

3 Q Could you tell me the substance of those
4 discussions.

5 A Our children go to the same high school,
6 and so I do see Sam occasionally. In conversations,
7 he has discussed or he has mentioned in a general way
8 the trial that is coming up and the fact that, how he
9 is preparing for the trial, in terms of he is
10 spending a lot of time, he is getting ready, in that
11 general nature. That is the essence of our
12 conversations.

13 Q Can you recall anything more specific?

14 A Well, we have talked about the trial, and
15 basically the specifics of the trial which have been
16 discussed in the press, at a social event and he said
17 that he was working hard getting ready for the
18 trial. He also said that Mr. McDougal was pressing
19 for the President to testify in person, which has
20 been reported in the press, and that he had defended
21 Mr. McDougal one time before and was prepared to
22 defend him again. It was just generic trial

1 discussions.

2 Q Have you had any discussions with anyone
3 with regard to a McDougal legal defense fund or money
4 being provided to pay for Mr. McDougal's legal
5 services?

6 MS. BERGER: Legal expenses.

7 MS. FISHER: Legal expenses. Sorry.

8 THE WITNESS: I don't recall any
9 conversations about a legal fund for McDougal.

10 BY MS. FISHER:

11 Q Did you have any discussions with Jim Blair
12 about his conversations with either McDougal or
13 Mr. Heuer?

14 MS. BERGER: Are you asking him if Blair
15 ever told him that Blair had talked to Heuer or
16 McDougal?

17 MS. FISHER: Yes.

18 MR. KRAVITZ: About McDougal?

19 BY MS. FISHER:

20 Q Any discussions with Jim Blair -- have you
21 had any discussions with Jim Blair since 1992?

22 A Yes.

1 Q In any of those discussions, did Jim
2 McDougal or Sam Heuer come up in conversation?

3 MR. KRAVITZ: You can answer that question
4 yes or no.

5 THE WITNESS: I can't recall. I don't
6 know. I have to think of my conversations with
7 Mr. Blair and I don't know.

8 BY MS. FISHER:

9 Q Did Mr. Blair ever mention to you that he
10 had discussions with Mr. Heuer about his
11 representation of Mr. McDougal?

12 MS. BERGER: Do you understand the
13 question?

14 THE WITNESS: I'm sorry, I don't understand
15 the question, Alice.

16 MS. BERGER: Let me see if I can help. Did
17 Blair ever tell you that he had talked to Heuer about
18 Heuer's representation of McDougal?

19 THE WITNESS: I don't remember whether Jim
20 Blair told me that or not. I don't recall that. I'm
21 sorry.

22 BY MS. FISHER:

1 Q Have you had any contact with Chris Wade in
2 1992?

3 A I don't know Chris Wade.

4 Q So that would be a no?

5 A That would be a no. I don't know Chris
6 Wade. To my knowledge, I have never had any contact
7 with him.

8 Q Do you know Dan Lasater?

9 A I know who he is. I don't know him
10 personally.

11 Q Have you had any discussions with
12 Mr. Lasater in 1992 to the present?

13 A No.

14 Q Do you know Mr. Branscum?

15 A I do.

16 Q Have you had any discussions with
17 Mr. Branscum with regard to the Perry County Bank and
18 the 1990 Clinton gubernatorial campaign?

19 A No.

20 Q Have you had any discussions with
21 Mr. Robert Hill?

22 A No.

1 Q Have you had any discussions with Betsey
2 Wright with regard to the Perry County Bank and the
3 1990 Clinton gubernatorial campaign?

4 A Not that I can recall, although, again, we
5 could have discussed a press-related matter.

6 Q Other than press matters?

7 A No.

8 Q Other than press matters, did you have any
9 conversations with Ms. Wright with regard to Madison?

10 A No.

11 Q Other than press matters, did you have any
12 conversations with Ms. Wright with regard to David
13 Hale?

14 A No.

15 Q Have you had any contact since 1992 with
16 Governor Jim Guy Tucker?

17 MR. KRAVITZ: About what?

18 MS. FISHER: I will get to that. I just
19 want to have this in a very flowing manner. You let
20 me do it the last time. Are you going to object
21 every other time?

22 MR. KRAVITZ: I'm going to object every

1 time I can think of it when it is an inappropriate
2 question. If you want to ask whether he has ever had
3 any conversations with Jim Guy Tucker about subjects
4 covered by the Resolution, you are free to do so.
5 Otherwise, your question is improper.

6 BY MS. FISHER:

7 Q Have you had any discussions with Jim Guy
8 Tucker since 1992 with regard to either RTC
9 investigations or other investigations?

10 MS. BERGER: Of him?

11 MS. FISHER: No. Just with RTC
12 investigations or other investigations involving
13 Madison.

14 MR. KRAVITZ: Oh, involving Madison.
15 That's fine.

16 THE WITNESS: To the best of my
17 recollection, no.

18 BY MS. FISHER:

19 Q Have you had any discussions with anyone at
20 the Eastern District of Arkansas U.S. Attorney's
21 Office with regard to any investigation involving
22 Madison Guaranty?

1 MS. BERGER: Can you tell him who you are
2 talking about in that office?

3 MS. FISHER: I could read out a list of
4 names.

5 MS. BERGER: Well, it may be the case that
6 he doesn't know what you are talking about because of
7 the way the question is phrased.

8 THE WITNESS: I'm confused.

9 BY MS. FISHER:

10 Q Do you know Paula Casey?

11 A I know Paula Casey.

12 Q Have you had any discussions with Paula
13 Casey involving Madison Guaranty?

14 A No.

15 Q Do you know Brent Bumpers?

16 A Yes.

17 Q Have you had any discussions with Brent
18 Bumpers involving Madison Guaranty?

19 A No.

20 Q Do you know Mark Stodola?

21 A Yes.

22 Q Have you had any discussions with

1 Mr. Stodola involving David Hale or Capital
2 Management Services?

3 A Yes.

4 Q Could you tell me the substance of those
5 discussions.

6 A I saw Mr. Stodola at a social event and we
7 talked about a press article which appeared about him
8 in the paper regarding whether he was going to pursue
9 charges against Hale or not. It was in the context
10 of that press article.

11 Q What do you specifically recall about that
12 discussion?

13 A Nothing specific. Just general, I read
14 about you in the press, you are obviously very busy,
15 and he said yes, I have a lot on my plate. It was
16 just general.

17 Q Did Mr. Stodola say anything to you
18 specifically?

19 A No, not that I recall. It was a social
20 event.

21 MS. BERGER: You mean about Madison did he
22 say anything specifically?

1 MS. FISHER: No. About David Hale.

2 THE WITNESS: No, other than his name was
3 mentioned because it was in the press article. I
4 said I saw that article about you and David Hale
5 today, or yesterday or whenever it appeared. It was
6 nothing specific. It was generic.

7 BY MS. FISHER:

8 Q Did you ever discuss David Hale or Capital
9 Management Services with James Blair?

10 A Not to my knowledge.

11 Q Did Mr. Blair ever tell you that he
12 provided funds to Mr. McDougal to pay off or to close
13 out the Whitewater relationship?

14 A No.

15 Q Did Mr. Blair ever tell you of any funds he
16 provided to Mr. McDougal?

17 A No.

18 Q Have you had any discussions with David
19 Kendall involving Madison Guaranty, Whitewater or
20 Capital Management?

21 A Yes.

22 Q Do you recall when those discussions were?

1 A We have had discussions about press
2 articles, and a couple of weeks ago, Mr. Kendall was
3 in Little Rock, and we had dinner. He indicated to
4 me that he was there on a legal matter and we had a
5 discussion, nothing substantive, about legal issues
6 and the trial was coming up and generic matters that
7 had appeared in the press, but it was nothing
8 substantive. It was a social dinner.

9 Q When was the first time that you met
10 Mr. Kendall?

11 A I don't recall the first time that I met
12 Mr. Kendall.

13 Q Was it in 1993?

14 A Alice, I'm sorry, I don't know that. I
15 don't know when I first met him.

16 Q Did you ever attend any meetings with
17 Mr. Kendall? I don't want to construe this dinner as
18 a meeting. Did you ever have any occasion to meet
19 with Mr. Kendall other than this dinner?

20 MS. BERGER: Do you mean on a matter
21 related to Madison?

22 BY MS. FISHER:

78

1 Q Do you know Mr. Kendall outside of being
2 the lawyer for the President and Mrs. Clinton?

3 A Not really. No, I don't recall any
4 meetings with Mr. Kendall. We have, again, had
5 discussions about press issues.

6 Q On the phone?

7 A On the phone. I may have seen him when he
8 was in Little Rock, but I don't think it was in a
9 meeting setting. I think that I may have met him at
10 a social gathering. But I don't recall any meetings
11 with Mr. Kendall.

12 Q When you say that you spoke to Mr. Kendall
13 about press issues, would he call you or would you
14 call him, generally?

15 A Both.

16 Q What occasions do you recall calling him?

17 A I don't recall any specific occasions, but
18 I do recall if there was an article in the paper that
19 I thought that he would be interested in, that I
20 would call and tell him that this article appeared.

21 Q Do you recall any specific occasions where
22 he called you?

1 A No, I don't recall specifically.

2 Q Do you recall any occasions where in one of
3 your discussions with Mr. Kendall, he asked you for
4 information? What I'm trying to get is were all the
5 conversations just gosh, did you see, this appeared
6 in the press, yes, I saw this appeared in the press.
7 Or did you ever have a conversation with him that
8 said this was in the press, can you find out if this
9 is right, can you do some research on this, do you
10 know if this is true?

11 MS. BERGER: Are you asking him if
12 Mr. Kendall ever asked him to do anything as a result
13 of a press story?

14 BY MS. FISHER:

15 Q I'm asking if Mr. Kendall ever asked you
16 for information in any of the discussions you had
17 with him.

18 A I don't recall specifically, but it is
19 possible he could have asked me like who is so-and-so
20 or are you familiar with this entity or where is
21 this, more questions relating to background. To my
22 knowledge, he has never asked me to do anything. He

80

1 may have tapped my institutional memory on an issue.

2 Q It would be the best of your recollection
3 that he has never asked you to contact anyone?

4 A It would be the best of my recollection
5 that he has never asked me to contact anyone.

6 Q Have you participated in any discussions at
7 the White House with regard to Neil Ainley?

8 A No.

9 Q Have you participated in any discussions
10 with anyone at the White House with regard to Bill
11 Watt?

12 MR. KRAVITZ: Can you tell him who that
13 is?

14 BY MS. FISHER:

15 Q Do you know who Bill Watt is?

16 A I know who Bill Watt is. He is a judge,
17 and every kid that gets a traffic ticket in Little
18 Rock goes before him.

19 MS. BERGER: Are you asking him whether he
20 has ever talked to anybody at the White House with
21 respect to a matter relating to Judge Watt that is
22 within the resolution?

1 MS. FISHER: Yes.

2 THE WITNESS: No.

3 BY MS. FISHER:

4 Q Did you have any discussions with anyone at
5 the White House about L.D. Brown?

6 A Yes.

7 MR. KRAVITZ: Relating to anything in
8 particular?

9 BY MS. FISHER:

10 Q In any of those discussions -- who were
11 those discussions with?

12 MR. KRAVITZ: Wait, hold on a second.
13 Let's narrow this down to subject matters that are
14 within our resolution before we get into any more
15 details.

16 BY MS. FISHER:

17 Q Did you discuss with anyone at the White
18 House anything related to L.D. Brown and Madison
19 Guaranty, Jim McDougal?

20 I could go on to list and list and list.

21 MS. BERGER: You should, because he needs
22 to understand what you are asking him.

1 MS. FISHER: Off the record.

2 (Discussion off the record.)

3 THE WITNESS: Ask the question again,
4 please.

5 BY MS. FISHER:

6 Q Do you recall the substance of your
7 conversations with anyone at the White House with
8 regard to L.D. Brown and where anything related to
9 Madison, Capital Management, David Hale, Jim
10 McDougal, et cetera, et cetera, came up?

11 A Yes.

12 Q Could you tell me what that conversation
13 was.

14 A Yes. In a phone conversation with Bruce
15 Lindsey, I told him about a conversation that I had
16 had with L.D. Brown.

17 Q What did you discuss with Mr. Lindsey?

18 A I only discussed with Mr. Lindsey that I
19 had had a conversation with L.D. Brown. We did not
20 discuss the substance of the conversation.

21 Q So, the sum of your conversation would be I
22 had this conversation with L.D. Brown. Mr. Lindsey

1 didn't ask you what did you discuss with him?

2 A We did not go into details about that
3 discussion. We were talking about a completely
4 different matter, and in the context of the
5 discussion, it came up in a what else has been going
6 on, what have you been doing, and I said well, I had
7 a conversation with L.D. Brown today, and I went on
8 to report other people that I had talked to.

9 That was the essence of my conversation
10 with the White House about L.D. Brown.

11 Q Could you tell me the substance of your
12 conversation with L.D. Brown.

13 A Sure. L.D. Brown called and said he really
14 wanted to see me. I was out of the office. He
15 apparently called several times and even left his
16 beeper number saying he really, really had to see
17 me. So, I returned his call and set up an
18 appointment.

19 Mr. Brown came to my office and discussed
20 in great detail his press -- the press was very
21 interested in him, his stories, that he was very
22 overwhelmed or fascinated by the number of press

1 reporters that wanted to talk with him.

2 He asked me for my advice on how you deal
3 with the press, and we had a discussion about that.

4 Q Do you recall anything else about your
5 conversation?

6 A I recall in the conversation with Mr. Brown
7 that he asked me where I thought all this was going.
8 I told him I didn't know. I told him that because he
9 was a visible figure, that he very well could be
10 asked to give a statement and that my advice to him
11 was to always tell the truth, that when he put his
12 head on the pillow at night to know that he had told
13 the truth. That was my counsel to him.

14 Q Did you give him any further advice?

15 A Alice, I don't recall any more specifics of
16 the conversation. We did discuss the press,
17 overwhelming press interest, but I specifically
18 remember those points.

19 Q Do you recall when this conversation
20 occurred?

21 A I believe it was in early February of '94.

22 Q Did you take notes of this conversation?

1 A I did not.

2 Q Did you discuss the ongoing investigation
3 involving Madison Guaranty and Whitewater at that
4 time with L.D. Brown?

5 A I think, to the best of my recollection, we
6 discussed the fact that because he had been outspoken
7 and was granting interviews and talking to the press,
8 that he could be asked for his statement or he could
9 be asked to testify, in that context.

10 I wasn't familiar with enough of the
11 investigation to even discuss it in detail so I
12 couldn't have had a substantive discussion with him.

13 Again, I met with him at his request, and
14 he sought my advice. I didn't seek to talk to
15 L.D. Brown.

16 Q Other than Mr. Lindsey, did you discuss
17 your conversation with L.D. Brown with anyone else?

18 A The only other person that I remember
19 discussing it with was also in a conversation with
20 Betsey Wright, where again, as part of another
21 conversation we were having, I said to her I visited
22 with L.D. Brown today.

1 MS. FISHER: Off the record for a minute.
2 (Recess.)

3 BY MS. FISHER:

4 Q Can you tell me what you recall about this
5 discussion with Betsey Wright, where Betsey Wright
6 was present.

7 Read back the last answer.

8 (The reporter read the record as requested.)

9 BY MS. FISHER:

10 Q Do you recall anything further about that
11 conversation with Ms. Wright?

12 A No.

13 Q Was that promptly after the conversation
14 with L.D.?

15 A Alice, I don't remember.

16 Q Did you discuss your conversation with
17 Mr. Brown with Mr. McLarty at any time?

18 A No, I did not. Let me clarify that. Once
19 it appeared in the press, but not during the time --
20 not during this particular time period. It later
21 appeared in the press. And at that point, I did, in
22 terms of the press report, but not in the context

1 that I think you asked the question.

2 Q Did you have any discussions with John
3 Latham with regard to Madison Guaranty?

4 A No. I don't know John Latham.

5 Q Have you had any discussions with Randy
6 Coleman with regard to David Hale?

7 A No.

8 Q I want to show you a document that has been
9 produced to the Committee by the White House and it
10 is Bates number S 011484 to 486. It is 485 to 486.
11 Excuse me. On the top I believe it said "Skip called
12 re: the following." I understand this, most likely
13 since it came from the White House, isn't something
14 you typed up.

15 MS. BERGER: Can you tell from the Bates
16 numbers whose files it came from?

17 MS. FISHER: No. The White House has not
18 produced us a list of what came where, so I have no
19 idea.

20 THE WITNESS: Can I read this?

21 MS. FISHER: Absolutely.

22 (Witness examined the document.)

1 THE WITNESS: Is there a date on this,
2 Alice?

3 MS. FISHER: No, there is not. I couldn't
4 tell from where it was produced, as I said, whose
5 files it came from or where it came from.

6 MS. BERGER: What is your question?

7 MS. FISHER: I wanted to ask him about the
8 document, but I wanted to give him a chance to look
9 at it. So I don't think I have a pending question.

10 THE WITNESS: This is the first time I have
11 seen the document.

12 BY MS. FISHER:

13 Q I wanted to give you a chance to look at
14 it.

15 A Okay.

16 Q Do you recall looking into issues regarding
17 the campaign loan from the Cherry Valley bank?

18 A I don't recall looking into issues. I
19 believe, to the best of my recollection or as a
20 result of just now reading this, that this was
21 probably told to me by a reporter, and I passed the
22 information on. It probably comes from a reporter.

1 Q The first sentence says "the \$50,000 loan
2 from the Bank of Cherry Valley was a campaign finance
3 violation because the financial institution was not
4 listed on the report."

5 Do you recall discussing that with anyone
6 other than a reporter?

7 A No. I don't know anything about that. I
8 would have passed on what the reporter had told me.

9 Q But you don't recall discussions about
10 whether that was a true or untrue statement?

11 A No, there was no discussion on it. I would
12 have just passed this on in terms of a visit with the
13 reporter who would have said we are working on this
14 story and, by the way, ABC has opened a permanent
15 bureau here.

16 Q Do you recall discussing the 1985
17 fundraiser that Mr. McDougal had for then-Governor
18 Clinton?

19 MS. BERGER: With?

20 BY MS. FISHER:

21 Q With anyone.

22 A No, other than passing on press reports

90

1 which I have testified that I did that regularly.

2 Q I want to show you another document that is
3 Bates number S 12365, dated December 21, 1993, from
4 Skip Rutherford to Bruce Lindsey.

5 Do you recall this document?

6 MS. BERGER: Let him look at it for a
7 minute.

8 (Witness examined the document.)

9 MS. BERGER: What is the question now?

10 BY MS. FISHER:

11 Q Do you recall writing this memo?

12 A No. It looks like -- I don't recall
13 writing this memo, although it is possible. It
14 doesn't seem to be in my style of writing. It could
15 be that I could have called in to someone in Bruce's
16 office who could have put it in memorandum form,
17 which is possible, but I don't recall writing this
18 particular memo. In fact, I don't recall ever even
19 seeing this memo. Usually when I write a memo, I
20 sign it up here.

21 Q Do you recall anything about the substance?

22 A Again, this is in relation to the press.

1 Q Who is Mr. Bradbury?

2 A He was the president of Worthen Bank, which
3 is now Boatman's Bank. There was a tremendous amount
4 of press interest in Worthen loans.

5 As I look at this, what I probably did,
6 Alice, was that I learned that The Wall Street
7 Journal is working on an article about this
8 particular subject, and I probably called Bruce
9 Lindsey at the time to tell him about it. Either I
10 wrote the memorandum, which I don't recall, or
11 someone typed up the memorandum based on the
12 conversation with me.

13 Usually when I write my memorandums, I sign
14 "Skip." I usually don't ever use the words "please
15 advise." That is just not my style.

16 My feeling is that this came from a
17 telephone conversation that I told someone in Bruce's
18 office.

19 Q Do you recall speaking to Mr. Bradbury in
20 and around December 1993?

21 A I don't recall specifically, although it
22 would not be unusual for me to talk to Kurt

1 Bradbury. From all indications, I don't recall
2 specifically, but, again, it is certainly possible.

3 Q Do you recall attempting to obtain any
4 information with regard to bank loans or anything
5 like that?

6 A No, absolutely not. If I had talked to
7 Mr. Bradbury, it would be in the context of a press
8 inquiry he had.

9 Q That Mr. Bradbury brought to you?

10 A Yes.

11 MR. KRAVITZ: I should just point out
12 looking at this document that it refers to "Skip" in
13 the third person here in the last paragraph, where it
14 says "Skip has a meeting in Mack's office at 3:00,"
15 et cetera. If you were writing it --

16 THE WITNESS: I think I passed that on to
17 someone in Bruce's office who typed it up. That is
18 not my --

19 MR. KRAVITZ: You wouldn't refer to
20 yourself in your own memo as "Skip."

21 THE WITNESS: You are right. I didn't
22 catch that. The "please advise" and I always sign

1 mine. That just doesn't look like -- it looks like I
2 passed on the conversation.

3 MS. FISHER: I don't have any further
4 questions.

5 MR. KRAVITZ: Why don't we take about a
6 five-minute break.

7 (Recess.)

8 EXAMINATION

9 BY MR. KRAVITZ:

10 Q Mr. Rutherford, I'm going to ask you just a
11 few follow-up questions. I will probably start on
12 each subject matter by trying to direct your
13 attention to some of your prior testimony or a
14 summary of your prior testimony so you can focus in
15 on what I'm asking you about.

16 I first want to ask you some questions
17 about conversations that you may or may not have had
18 regarding Beverly Bassett Schaffer during the time
19 period December 1993 through February 1994.

20 Do you have any recollection of speaking
21 with Harold Ickes during that time period about
22 Beverly Bassett Schaffer?

94

1 A No.

2 Q Do you believe that you had any
3 conversation with Mr. Ickes about Beverly Bassett
4 Schaffer during that time period, December '93
5 through February '94?

6 A I do not believe I had any conversation
7 with him about Beverly Bassett Schaffer during that
8 time period.

9 Q Now, let me ask you the same questions with
10 regard to Michael Waldman. Do you have any
11 recollection of speaking with Michael Waldman about
12 Beverly Bassett Schaffer between December 1993 and
13 February 1994?

14 A I believe I have testified that I do not
15 have any recollection of speaking with Michael
16 Waldman, and I don't believe that I did.

17 Q Just so the record is clear, you have no
18 recollection of speaking with Michael Waldman between
19 December 1993 and February 1994 about Beverly Bassett
20 Schaffer; is that correct?

21 A That is correct.

22 Q And you don't believe that you had such a

1 conversation?

2 A I don't believe that I did.

3 MS. BERGER: Give me one second.

4 (Counsel conferred with the witness.)

5 BY MR. KRAVITZ:

6 Q The transcript will record more accurately
7 than my memory as to what you said previously, but my
8 memory from your previous testimony this morning is
9 that with regard at least to Mr. Waldman and possibly
10 with regard to Mr. Ickes as well, you testified that
11 you did not recall talking with Mr. Waldman or
12 Mr. Ickes about Beverly Bassett Schaffer during that
13 time period but that it was possible.

14 MS. FISHER: I don't think that is a fair
15 characterization of his testimony.

16 I think you said you did not believe that
17 it occurred.

18 MR. KRAVITZ: I said that.

19 THE WITNESS: I don't believe it occurred.
20 If I used the word "possible," it could have been in
21 relation to a press story, that I would not have even
22 remembered the conversation. So, that is what I was

96

1 trying to clarify. When an all-encompassing
2 question -- considering that I did have conversations
3 about press stories, whatever was in the news could
4 have been possible, but only as a news story.

5 BY MR. KRAVITZ:

6 Q Fair enough.

7 Now, I want to direct your attention to the
8 telephone conversation you testified about earlier
9 with Archie Schaffer in which Mr. Schaffer told you
10 that Beverly Bassett Schaffer had been stalked.

11 Do you remember the conversation?

12 A I do.

13 Q What did Archie Schaffer tell you during
14 that conversation about the stalking?

15 A He indicated to me that Beverly was
16 surprised and taken by complete shock at someone who
17 came up to her and then I believe followed her to
18 another location, that he couldn't believe someone
19 who was affiliated with the press would do anything
20 like that, that he had never seen that. He wanted to
21 know if I had ever heard of anything like that. That
22 it really bothered her, it really bothered him, that

1 they were really upset about it. They were very
2 emotional about it.

3 He told me that he had taken a picture of
4 the stalker and that he either was going to or had
5 released it to the press, and he was just very
6 upset.

7 Q Did Mr. Schaffer indicate whether or not
8 Mrs. Schaffer feared for her physical safety as a
9 result of those incidents?

10 A I don't recall any discussion about the
11 physical safety. I do recall the discussion, that
12 she was very upset and very worried, but I simply
13 don't recall the physical. We didn't talk about
14 that, to my knowledge.

15 Q You testified earlier that at some point
16 during this conversation that you had with Archie
17 Schaffer, that Mrs. Schaffer might have gotten on the
18 telephone. What did you mean by that?

19 A Well, again, he was very upset. He was
20 very emotional. I don't remember. I believe she was
21 in the room when the conversation took place, and I
22 have some recollection that I either talked to her or

98

1 I heard her voice in the background affirming what he
2 was saying, but I'm not certain of that.

3 Q Just to be clear, this was a telephone
4 conversation?

5 A This was a telephone conversation.

6 Q You also testified about another
7 conversation that you had, another telephone
8 conversation that you had with Archie Schaffer. I
9 believe you testified that you didn't know exactly
10 when this subsequent conversation occurred but you
11 thought it probably occurred in December '93 or
12 January 1994. In any event, it was after this
13 previous conversation in which stalking was
14 discussed.

15 A Right.

16 Q And it was during this subsequent
17 conversation, probably in December '93 or January
18 '94, that the issue of a possible press conference
19 was discussed?

20 A That's correct.

21 Q Was Beverly Bassett Schaffer on the
22 telephone at any time during this subsequent

1 conversation between you and Mr. Schaffer?

2 A No.

3 Q Did Beverly Bassett Schaffer appear to be
4 in the same room with Mr. Schaffer?

5 A No.

6 Q Did Mrs. Schaffer participate in the
7 conversation that you had with Mr. Schaffer in any
8 way?

9 A No.

10 Q You testified that at some point during
11 that telephone conversation that you had with Archie
12 Schaffer in which the subject of a possible press
13 conference came up, that you told Mr. Schaffer that
14 he should consult with Paul Begala or a Paul Begala
15 type before deciding whether to hold a press
16 conference; is that correct?

17 A That is correct.

18 Q Did you ever have any conversation with
19 Paul Begala?

20 A Not to my recollection.

21 Q Let me finish the question. I know you
22 know what I'm going to say, but the transcript needs

100

1 to be clear.

2 A I'm sorry.

3 Q Did you ever have any conversation with
4 Paul Begala on the subject of whether Beverly Bassett
5 Schaffer should hold a press conference?

6 A Not to my recollection.

7 Q Do you know whether Archie Schaffer ever
8 had any communications with Paul Begala on the
9 subject of whether Mrs. Schaffer should hold a press
10 conference?

11 A I don't know.

12 Q Just one other question to clarify the
13 record and make sure that everybody understands
14 exactly what you meant.

15 At one point when Ms. Fisher was asking you
16 questions about whether you had discussed Beverly
17 Bassett Schaffer with Mr. Tisdale, I believe you
18 testified that you may have visited with Mr. Tisdale
19 on that subject. When you used the word "visited,"
20 did you mean meet, an in-person meeting, or is that
21 terminology just for a conversation that could or
22 could not be in person?

1 A "Visited" would be defined as a
2 conversation that could or could not have been in
3 person. It could have been by phone. It could have
4 been as the result of a press clip.

5 MR. KRAVITZ: That's all I have. Thanks.

6 MS. FISHER: Let me ask just a couple more
7 questions.

8 THE WITNESS: Sure.

9 EXAMINATION

10 BY MS. FISHER:

11 Q In your conversation with L.D. Brown, was
12 that in person or was that over the phone?

13 A That was in person.

14 Q Where was that?

15 A In my office.

16 Q In your office. How long did it last?

17 A I don't recall exactly. I believe around
18 an hour, 45 minutes to an hour, but I'm not sure.

19 Q Did the issue of subpoenas come up during
20 that conversation?

21 A Yes. I recall that coming up. I said that
22 you may be asked to testify as part of your public

1 statements.

2 MS. FISHER: That's all I have. Thank you
3 so much.

4 (Whereupon, at 11:40 a.m., the deposition
5 was concluded.)
6
7

8 -----
9 JAMES L. RUTHERFORD
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

I, BRENDA M. SMONSKEY, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Brenda Smonskey
Notary Public in and for the
District of Columbia

My Commission Expires

SEPTEMBER 14, 1996

DEPONENT James L. Rutherford

ERRATA

[illegible]

**DEPOSITION OF SAM I. BRATTON, JR.
IN RE: S. RES. 120**

VOLUME II

TUESDAY, APRIL 23, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Deposition of SAM I. BRATTON, JR., called for further examination pursuant to notice of deposition, at 2:10 p.m. in Room 640-A of the Hart Senate Office Building, before CARMEN BUNCH, a Notary Public within and for the District of Columbia, when were present:

MICHAEL P. O'CALLAGHAN, Esq.
Majority Associate Special Counsel
NEAL E. KRAVITZ, Esq.
Minority Principal Deputy Special Counsel
MITCHELL FEUER, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

CONTENTS

WITNESS

EXAMINATION

Sam I. Bratton, Jr. [Resumed]

by Mr. O'Callaghan 5

by Mr. Feuer 7

P R O C E E D I N G S

1 MR. O'CALLAGHAN: Good afternoon,
2 Mr. Bratton. My name is Michael O'Callaghan,
3 associate special counsel with the Special Committee
4 and with me today is Mitchell Feuer, who is counsel
5 to the Banking Committee, conducting a deposition
6 today pursuant to Senate Resolution 120. The
7 resolution establishes a Special Committee
8 administered by the Banking Committee to conduct an
9 investigation involving Whitewater Development
10 Corporation, Madison Guaranty Savings & Loan
11 Association, Capital Management Services, Inc., the
12 Arkansas Development Finance Authority and other
13 related matters.

14 This deposition is in advance of public
15 hearings which are going to occur next week, and you
16 will probably be asked to testify at those hearings.
17 We're going to ask you a series of questions today
18 and ask you to testify under oath. If you don't
19 understand a question, please let me know or Mitchell
20 know and we'll be happy to rephrase our questions.
21 In addition, if you need a break at any time, let us

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1 know and we'll be happy to accommodate you.

2 The stenographer is preparing a record of
3 questions and answers. The deposition will be
4 treated as Committee confidential until the
5 commencement of the hearings. Prior to the hearings,
6 you will receive a copy of your transcript of this
7 deposition to review. You'll be given an opportunity
8 to make any notes of any corrections for
9 transcription on an errata sheet.

10 This deposition is a continuation of a
11 deposition which we began back on January 5 of 1996
12 where I believe you spoke with Mr. Brenner and
13 Mr. Portnoy, and also I believe I asked you to
14 identify some handwriting on a number of documents
15 during that deposition.

16 The deposition today is being conducted by
17 telephone and I would like to ask you if you consent
18 to being sworn in over the telephone by the court
19 reporter.

20 MR. BRATTON: Yes.

21 MR. O'CALLAGHAN: Could you please swear
22 the witness.

1 Whereupon,

2 SAM I. BRATTON, JR.

3 was called as a witness and, having first been duly
4 sworn, was examined and testified as follows:

5 EXAMINATION

6 BY MR. O'CALLAGHAN:

7 Q Mr. Bratton, you may be represented by
8 counsel today. Are you represented by counsel?

9 A No, I am not.

10 Q And you're aware that you are entitled to
11 representation; is that right?

12 A Yes, I am.

13 Q If you have any objections to the form of
14 questions, they will be noted for the record, and
15 objections may be made on grounds of privilege or
16 relevance. The Committee chairman will rule on
17 objections where the witness refuses to answer a
18 question.

19 Could you please state and spell your full
20 name for the record.

21 A Sam I. Bratton, Jr., B-r-a-t-t-o-n.

22 Q Have you spoken with anyone other than

1 counsel prior to this deposition about the
2 deposition?

3 A There are people in my office and two or
4 three other friends that know I'm having this
5 deposition taken today. I have not talked with
6 anyone about what I thought would be the substance of
7 it.

8 Q Have you spoken with anyone in the White
9 House about today's deposition?

10 A I have not spoken with anyone in the White
11 House about it.

12 Q Did you take any steps to prepare for the
13 deposition today?

14 A No.

15 Q You didn't review any documents?

16 A I looked briefly at the legislation that
17 was passed in 1985 authorizing the Arkansas State
18 Police to acquire a radio system.

19 Q Anything other than that?

20 A No.

21 MR. O'CALLAGHAN: I would like to go off
22 the record for a quick moment.

1 (Discussion off the record.)

2 BY MR. O'CALLAGHAN:

3 Q Back on the record. Mr. Bratton, could you
4 describe your employment position between January 1,
5 1982 through approximately October of 1986?

6 A When in 1982?

7 Q Beginning of the year, January.

8 A January of 1982?

9 Q Yes, sir.

10 A I was in private practice of law, general
11 practice as a solo practitioner, and did a
12 significant amount of work for a private nonprofit
13 corporation, advocacy services, largely dealing with
14 special education issues for that organization. I
15 began working in the governor's office again in the
16 fall of 1983 and worked there until I left in the
17 spring of 1989.

18 Q During your time of the governor -- when
19 you were working in the governor's office, what was
20 your position?

21 A The title of the position was counsel for
22 legal and financial policy during most of that time.

1 Q And did that change?

2 A I'm not sure that that was the title
3 initially, but it was the title during most of that
4 period.

5 Q And while you were counsel in the
6 governor's office, did you do any work related to the
7 Arkansas Housing Development Agency and its
8 successor, the Arkansas Development Finance
9 Authority?

10 A It was not one of the agencies that I had
11 direct responsibility for in terms of the liaison
12 role or relationship. I would have had some dealings
13 with the agency primarily involving legislation that
14 would have affected the agency that was being
15 proposed by the governor's office or perhaps being
16 proposed by others as part of my overall
17 responsibility in dealing with legislative issues.

18 Q Did you have any involvement with the
19 appointment process for board members or officers to
20 ADHA or ADFA?

21 A No.

22 Q Were you ever involved in any discussions

1 involving appointments to those boards or those
2 offices?

3 A It is possible that sometime during that
4 four- or five-year period, I may have had some casual
5 discussions with either Betsey Wright or Bob Nash
6 about appointments, but it would have been a very
7 casual nature. I was not directly involved in the
8 selection or appointment of individuals to that
9 board.

10 Q Were you ever told that Dan Lasater or
11 anyone involved with Lasater & Company had an
12 interest in having anyone appointed to the ADFA or
13 ADHA boards?

14 A Not that I recall.

15 Q Who acted as the liaison for the governor's
16 office to AHDA and ADFA?

17 A Bob Nash.

18 Q Was that during the entire time you were at
19 the governor's office?

20 A I'm not sure whether Bob left the
21 governor's office shortly before I did, but during
22 the vast majority of the time between '83 and '89

10

1 when I was on the governor's staff, Nash had that
2 responsibility. I think he may have left the
3 governor's office to become director at ADFA before I
4 left the governor's office but not by long as I
5 recall. And I think probably Phil Price would have
6 had that liaison responsibility after Bob Nash left.

7 Q During the period again 1983 through 1986,
8 did you have any interaction with anyone who was
9 appointed to the ADFA board or AHDA board?

10 A What do you mean by "interaction"?

11 Q Any contact or communications with anyone
12 on the board?

13 A I don't recall now who was on the board
14 during that period of time. It is possible that I
15 may have had conversations with someone who was on
16 the board, but I just simply don't remember who was
17 on the board at that period of time.

18 Q Do you recall if you had any contact or
19 communication with anybody named George Wright during
20 that time?

21 A I know who George Wright was. I believe he
22 was from Hope, and I had gone to school with some

1 people who knew George Wright, and periodically when
2 he would be in the governor's office, I would say
3 hello to him or ask about mutual friends. I don't
4 recall any particular conversations with him about
5 ADFA business.

6 Q How about Margaret Davenport, any
7 conversations with her?

8 A I know Margaret Davenport, and I have had
9 various conversations with her, but I don't recall
10 any specific conversations with her dealing with ADFA
11 business.

12 Q During the period 1983 through 1986, did
13 you have any conversations with anyone at AHDA or
14 ADFA with regard to their selection of underwriters
15 during that time period?

16 A Not that I recall. I wouldn't have had any
17 direct responsibility for that.

18 Q Although you didn't have direct
19 responsibility, do you recall being brought into that
20 process at all or being consulted about it?

21 A I was probably aware of discussions
22 involving the selection on one or two occasions.

1 Q Do you recall what those occasions were and
2 why that came to your attention?

3 A I think I was aware of discussions that
4 involved -- well, I was going to say with the state
5 police radio system. Was not actually an ADFA deal.
6 May have been an ADFA deal or two that I was aware of
7 the selection process, or just in a passing
8 conversation with Bob Nash. He and I had offices
9 next to each other and from time to time we would
10 swap stories about what I was doing or what he was
11 doing or problems that one or the other of us might
12 be having in dealing with issues.

13 So it would probably have been that sort of
14 conversation, not necessarily involved in a
15 conversation that had directly to do with the
16 selection process as such.

17 Q Were you ever involved with discussions
18 with anyone in the governor's office about
19 underwriting companies that anyone in the governor's
20 office preferred over other underwriting companies to
21 do business with AHDA or ADFA?

22 A Not that I recall.

1 Q Did you ever hear that anyone at the
2 governor's office suggested to anyone at AHDA or ADFA
3 that Lasater & Company should be included in bond
4 underwritings done by the agency?

5 A Not specifically with regard to Lasater. I
6 was aware that there was a general philosophy that
7 the underwriting business should be opened up to all
8 Arkansas companies and not be as concentrated as
9 perhaps it had been in the past.

10 Q Are you aware of any conversations or
11 communications that the governor had with anyone at
12 Lasater & Company with regard to their involvement in
13 state underwriting business?

14 A No.

15 Q Are you aware of any conversations that Bob
16 Nash had with anyone at Lasater & Company about their
17 inclusion in state underwriting business?

18 A Not that I recall.

19 Q Do you know if Betsey Wright had
20 conversations with anyone at Lasater & Company with
21 regard to their inclusion in state bond underwriting?

22 A Not that I recall.

1 Q During the time period 1983 through 1986,
2 did you know anyone at Lasater & Company, or its
3 predecessor, Collins, Locke & Lasater?

4 A I knew who the principals were. They were
5 not people that I knew personally, but I knew who
6 they were, and perhaps I may have known other people
7 who were employed there at various times. I don't
8 recall now.

9 Q Were you familiar with Dan Lasater at all?

10 A I don't know Dan Lasater. I have probably
11 met him once or twice, but I don't know him. I
12 certainly knew who he was.

13 Q You said you might have met him once or
14 twice. Where did you meet him?

15 A I have no idea. I just assume probably at
16 some point during that period of time I probably did.

17 Q Do you recall whether it was at your
18 offices in the capitol building or at the governor's
19 mansion?

20 A I don't know that I did meet him. I just
21 assume I probably did at some point during there, so
22 I don't have any idea where it would have been or

1 when or what the circumstances would have been.

2 Q And I didn't set the foundation for this,
3 but did you maintain an office at the capitol
4 building during this time?

5 A Yes.

6 Q Did you also have anywhere at the
7 governor's mansion that you worked, or was it just
8 the capitol building?

9 A I attended meetings at the governor's
10 mansion periodically.

11 Q Are you familiar with the name Michael
12 Drake?

13 A Yes.

14 Q How do you know the name Michael Drake?

15 A He was an employee, I believe, of Lasater &
16 Company at one period of time, and I think he perhaps
17 represented Lasater & Company or was one of the
18 Lasater & Company representatives during the
19 enactment of the state police radio legislation and
20 the subsequent decisions by the commission as to how
21 to implement that legislation.

22 Q During the time period that I identified,

1 did you ever have any meetings that involved
2 Mr. Drake?

3 A Probably did.

4 Q What would the subject of those meetings
5 have been?

6 A It would have --

7 Q Or what were the subject of the meetings?

8 A It would have dealt with our efforts to
9 pass the legislation that was necessary to authorize
10 the acquisition of the radio equipment.

11 Q Did you have any responsibilities with
12 regard to either the drafting or the handling of the
13 legislation to authorize financing for a police radio
14 system in 1985 in Arkansas?

15 A I did not draft the legislation. I did
16 have some responsibilities involving working with
17 securing its passage.

18 Q When did you first become involved in these
19 efforts?

20 A I don't recall. Sometime prior to the
21 beginning of the '85 session.

22 Q And when did sessions typically begin?

1 A Early January of odd numbered years,
2 regular sessions.

3 Q How did you first become involved?

4 A I don't recall specifically. The state
5 police became concerned that their existing radio
6 system and equipment were obsolete. There were holes
7 in the system where troopers couldn't reach the next
8 trooper or their troop headquarters.

9 There was one situation where a trooper was
10 killed during a traffic stop and there was some
11 concern that his death might have been avoided if
12 there had been better radio communications, so the
13 state police raised with the governor their interest
14 in and need for a more modern communication system.
15 And there was some discussions between
16 representatives of the state police and people on the
17 governor's staff and with the governor, so it was
18 kind of in that general sort of context. I don't
19 remember specifically when those discussions first
20 began.

21 Q Who did you have the first discussions on
22 the subject with?

1 A I don't know.

2 Q Do you know if it was with the governor,
3 did he tell you that he was interested in financing a
4 new radio system?

5 A I think I was generally aware from the
6 state police of their interest in acquiring a system
7 before I had any direct conversation with the
8 governor about it. The state police may have brought
9 it forward in their budget process in the fall of
10 '84, it's possible.

11 Q Did you have liaison duties with the state
12 police?

13 A I did not. The state police were not one
14 of the agencies that I had direct responsibility for,
15 but I had coordinating responsibility for all agency
16 budget requests as the liaison between the governor's
17 office and the Department of Finance and
18 Administration, so to that extent, I had some
19 relationship with every agency in terms of its budget
20 and other financial matters.

21 Q Did you work with anyone else in the
22 governor's office in relation to getting the

1 legislation passed to authorize the police radio
2 system?

3 A I'm sure there were several other people in
4 the governor's office that were involved with it. I
5 think Bob was to some extent.

6 Q Bob Nash?

7 A He was the state police liaison at that
8 point. I think it may have been Mike Gaines would
9 have probably been involved, and people who were
10 working as legislative liaisons during the
11 legislative session all would have been involved to
12 greater or lesser extent in trying to secure its
13 passage.

14 Q You said earlier Bob was involved and I
15 didn't hear whether or not you said that was Bob Nash
16 or not.

17 A Yes, I meant Bob Nash.

18 Q Did Betsey Wright have any involvement?

19 A Well, in terms of -- yes, because everyone
20 on the governor's staff was responsible for trying to
21 secure passage of legislation that the governor was
22 supporting, and Betsey, as chief of staff, would have

20

1 had overall responsibility for coordinating the
2 efforts on all legislative initiatives that we were
3 pursuing.

4 Q Did you have any discussions with the
5 governor with regard to the costs associated with
6 getting a new system?

7 A I'm sure I did.

8 Q Just to help refresh your recollection, do
9 you recall whether he first brought up the issue of
10 financing the radio system upon his return from the
11 funeral for the state trooper who was killed in I
12 guess it was called the "dead spot"?

13 A I don't recall.

14 Q Did he relate to you any conversations he
15 had during the funeral of the trooper that he had
16 with Colonel Goodwin of the state police?

17 A He may have. I don't recall at this point
18 whether he did or not.

19 Q When did it first become clear that the
20 preference was to finance the radio system through a
21 bond offering? What part of the process?

22 A I can't tell you a specific day or even

1 whether it was before the legislative session or
2 early in the legislative session. It is my general
3 recollection that it became apparent fairly early
4 that the cost was such that a general revenue
5 pay-as-you-go or payment of it out of the general
6 improvement fund over a short period of time was not
7 very feasible and that some type of long-term
8 financing was the preferable alternative.

9 Q Do you know an individual by the name of
10 Bobby Roberts?

11 A I'm sorry. I didn't hear the first part of
12 the question.

13 Q Do you know an individual by the name of
14 Bobby Roberts?

15 A Yes, I do.

16 Q Who is Bobby Roberts?

17 A He is president -- he is presently the
18 director of the central Arkansas library system. At
19 various times, Bobby worked on the governor's staff
20 as a full-time employee and on certain occasions
21 after he was not a full-time employee, he worked as a
22 part-time employee during the legislative sessions,

1 assisting in legislative relations and liaison work.
2 When he worked on the staff full time, he had liaison
3 responsibilities with a number of the what were
4 referred to as the public safety agencies, and that
5 included the state police.

6 Q Prior to the legislative session in 1985,
7 did you have any meetings with any representatives
8 from underwriting firms interested in participating
9 in possible underwriting for the bonds for the radio
10 system?

11 A I don't think so.

12 Q Do you recall meet with Michael Drake of
13 Lasater & Company?

14 A I had some conversations with Drake during
15 the session. I don't recall whether I ever had a
16 conversation with Drake before the session or not.
17 It's possible.

18 Q Did you have conversations with
19 representatives from other underwriting firms with
20 regard to the police radio system?

21 A I probably did. I can't tell you at this
22 point who -- there were a number of folks who were

1 interested in it.

2 Q Do you recall who the first underwriters
3 that approached you with an interest in getting
4 involved in the project were?

5 A I don't know that anyone approached me. I
6 had some conversations, as I say, with Drake.
7 Conversations that I recall having with him were
8 during the session and had to do with efforts to see
9 that the legislation passed, not so much with the
10 underwriting. That wasn't my responsibility.

11 Q Do you recall how you first came in contact
12 with Mr. Drake?

13 A No.

14 Q Do you recall if he contacted you or if you
15 contacted him?

16 A I wouldn't have contacted him, I don't
17 imagine.

18 Q Why is that?

19 A I wouldn't have had any reason to.

20 Q Between, let's say, October 1984 and July
21 of 1985, did you have contact with anyone at
22 Lasater & Company other than Mr. Drake?

1 A Not that I recall.

2 Q What role did Mr. Drake have with regard to
3 the legislation?

4 A I don't know that he had any role directly
5 with it. During the time that legislation was being
6 considered by the general assembly, Drake was just
7 kind of hanging around, following it. Then from time
8 to time he would come by and ask about whether we
9 were making progress with passing it or whether there
10 were problems and that sort of thing.

11 There was also another individual whose
12 name was Young, who I think may have been affiliated
13 at that point with Raney brothers, who was also one
14 of the people who hung around here in the time that
15 legislation was under consideration and would from
16 time to time come by and talk with me or talk with
17 Nash about were we going to be able to get it passed
18 and were there problems with it and that sort of
19 thing.

20 Q At any time that you met with Mr. Drake did
21 he express to you his firm's interest in being hired
22 as underwriter for the financing of the system?

1 A I don't recall that we talked about it
2 specifically. Clearly I knew Drake wouldn't be out
3 there representing Lasater and tracking the
4 legislation if they didn't have some interest in
5 competing for whatever business might ultimately be
6 available.

7 Q But did he specifically ever ask you
8 whether or not they could participate?

9 A Not that I recall. Again, that was not my
10 area of responsibility.

11 Q Notwithstanding that, did he ever indicate
12 to you that he wanted you to contact the governor or
13 anyone else in the office with regard to their
14 interests in participating in the underwriting?

15 A I don't recall whether he did or not.

16 Q Did you ever -- between the, let's say,
17 October '84 and the passage of the legislation --
18 excuse me. Let me reset the time period.

19 Between October '84 and the selection of
20 the underwriters by the state police commission, did
21 you ever visit Lasater & Company?

22 A I'm sorry, did I --

1 Q Ever go over or visit Lasater & Company.

2 A I have no recollection of doing so, and I
3 don't think I've ever been to Lasater & Company's
4 offices.

5 Q Did you have any one-on-one meetings with
6 Mr. Drake during this time period?

7 A I'm sure I did, as I said, and Drake pretty
8 much hung around the capitol during the time this
9 legislation was under consideration and would
10 periodically stop by my office and inquire about how
11 it was going, what we were going to do to try and get
12 it passed, so I'm sure I probably had more than one
13 discussion with Drake.

14 Q Was there one law firm that was involved
15 with regard to writing the legislation that enabled
16 the financing for the radio system?

17 A It's my recollection that the Mitchell firm
18 drafted the legislation. I'm not positive about
19 that, but that's my recollection.

20 Q Were they hired by Raney, T.J. Raney &
21 Company to do that?

22 A I don't know who engaged them.

1 Q Were they engaged by the state to do that?

2 A I don't recall. If I knew at the time who
3 had engaged them, I don't remember at this point.

4 MR. FEUER: Michael, you should tell him
5 that Neal has joined us.

6 MR. O'CALLAGHAN: Mr. Bratton, Neal Kravitz
7 has just joined us.

8 MR. KRAVITZ: Mr. Bratton, I'm Neal
9 Kravitz. I'm one of the lawyers on the Democratic
10 staff.

11 THE WITNESS: Thanks.

12 BY MR. O'CALLAGHAN:

13 Q As a general course of business, did the
14 state hire law firms to draft legislation with regard
15 to issues they are interested in?

16 A Generally no.

17 Q Did you work with members of the Mitchell
18 law firm in drafting legislation for the police radio
19 system?

20 A I didn't work on the drafting of the
21 legislation. I think I probably did work with a
22 representative or two from the Mitchell firm as we

1 were trying to secure passage of the legislation.

2 Q Did anyone from the governor's office have
3 any interaction with anyone at the Mitchell firm with
4 drafting legislation?

5 A Not that I'm aware of.

6 Q Did they provide the governor's office with
7 different drafts of the legislation as they were
8 working on it?

9 A I don't recall.

10 Q Mr. Bratton, when we had talked back in
11 January earlier this year, I brought a couple of
12 documents for you to look at. It's probably going to
13 be difficult for you to recall what I showed you at
14 that time. I asked you if you recognized any of the
15 handwriting on it, on the different documents. I'm
16 going to refer you now to the front page of a
17 document I showed you, you did not recognize the
18 handwriting, but I did show it to you, and it's on
19 John S. Selig letterhead. The first page bears the
20 Bates stamp numbers DKS N 017863 through DKS N 017875.

21 The first page is a handwritten note which
22 reads "Sam, this draft is sufficient. There is no

1 need for the other one I spoke to you about. John."

2 Again the letterhead reads John S. Selig. And
3 attached to it appears to be a draft of a bill
4 related to financing for the police radio system.

5 It's on -- there are a couple, appears to be a couple
6 different iterations, a short one and a long one.

7 Do you recall having any interaction with
8 Mr. John Selig with regard to the police radio
9 legislation?

10 A I don't specifically recall it. That note
11 is probably to me. I would have been the person that
12 would have received legislation if it were being sent
13 to the governor's office under most situations.

14 Q Who is John Selig?

15 A He's a partner in the Mitchell law firm.

16 Q And did you work with him -- do you recall
17 working with him generally on this matter?

18 A I don't recall specifically. I have some
19 general recollection that Selig had drafting
20 responsibilities. I believe the person that I
21 actually interacted most directly with was probably
22 Ann Ritchey, although I'm sure I probably had a

30

1 conversation or two with Selig.

2 Q What was the nature of your interaction
3 with Ms. Ritchey?

4 A She was the Mitchell firm attorney who was
5 out at the capitol during the time the legislation
6 was being debated and provided answers to members who
7 had questions about the bill and so forth.

8 Q Did you have any meetings that involved
9 members of the Mitchell firm and members of Lasater &
10 Company and T.J. Raney together during this time
11 period?

12 A I don't think that I did. I certainly
13 don't recall it.

14 Q Did you participate in any meetings in the
15 capitol with regard to the radio bond offering that
16 involved Tommy Goodwin?

17 A Can you explain your question? I'm not --

18 Q Sure. During the time of I believe after
19 January, between January and May 10 when the state
20 police commission selected Lasater, Raney, Hutton
21 group to be the underwriters for the state police
22 bond issue, did you have any involvement in meetings

1 at the state capitol that included Colonel Goodwin?

2 A Talking about the legislation, certainly,
3 I'm sure I did any number of times.

4 Q Do you recall how many meetings
5 approximately you were involved in with where Colonel
6 Goodwin attended?

7 A I have no idea.

8 Q You said you'd had meetings about the
9 legislation. What would those meetings entail?

10 A Well, any number of things. We had a
11 meeting of pretty much the full governor's staff
12 every morning during the legislation session that
13 discussed what legislative initiatives we were
14 pursuing that day and that week, so members of the
15 Cabinet would oftentimes be present so that the radio
16 issue was probably discussed any -- several times
17 during that type of meeting.

18 There were probably meetings during the
19 course of the day updating the governor on where we
20 were with whatever legislation was our priority for
21 that day. It would be recap meetings kind of at the
22 end of the week where we would talk about what

1 legislation we dealt with that week, what we were
2 going to focus on the next week, so there could have
3 been any number of times where I was in meetings
4 where that particular bill along with others were
5 discussed, at various times probably just talking to
6 people in the Hall for two minutes. Any number of
7 possibilities of all sorts of discussions during the
8 time that it was under consideration.

9 Q Do you recall any meetings where they were
10 called specifically to discuss the state police radio
11 financing?

12 A Not specifically, although there probably
13 were one or more.

14 Q Who would have attended those meetings?

15 A I don't recall.

16 Q Do you recall whether those meetings
17 included any members of the Lasater or T.J. Raney
18 firms?

19 A I don't recall participating in a meeting
20 discussing the financing where representatives of
21 those two groups were present.

22 Q How about --

1 A If you're talking about the mechanics of
2 how the legislation was going to work and that type
3 thing, those would have been internal discussions
4 that would involve people on the governor's staff and
5 the Department of Finance and Administration.

6 Q Any members from the Mitchell firm
7 participate in any of those meetings?

8 A It's possible.

9 Q Do you recall that that happened?

10 A I don't recall one way or another, but
11 since they had done work on the drafting or the
12 primary work on the drafting, it's entirely possible
13 that they did.

14 Q Would it be more likely than not that they
15 would, seeing how they did the work on the drafting
16 legislation?

17 A I just simply don't remember.

18 Q During the general course of meetings that
19 you have been involved with discussing getting
20 mechanics of legislation together, is it typical to
21 include the law firms that have worked on drafting
22 legislation?

1 A On those occasions where outside law firms
2 have done work on some legislation, it was certainly
3 not unusual for them to be involved in discussion
4 with the governor's staff or the relevant agencies on
5 efforts to pass the bill.

6 Q Were you involved in any meetings where
7 discussions of selection of underwriters was
8 mentioned?

9 A I may have been but not that I have any
10 specific recollection of.

11 Q Were you advised of any meetings where the
12 selection of underwriters were discussed that
13 included members of the governor's staff?

14 A Was I generally aware that there were
15 discussions in the governor's office that had to do
16 with the selection of underwriters? Yes.

17 Q What type of discussions were held?

18 A I don't have any specific recollection.

19 Q Who was involved in the discussions?

20 A I don't recall.

21 Q Did there come a time when you became
22 involved in any discussions with regard to selection

1 of underwriters?

2 A I may have been present when there were
3 some discussions about it. I don't recall at this
4 point.

5 Q Mr. Bratton, specifically do you recall
6 whether you had any discussions with Betsey Wright
7 about the selection of underwriters for the police
8 radio bond offering?

9 A I was probably present when there were
10 discussions that went on. I don't recall
11 specifically.

12 Q Are you aware of discussions that occurred
13 with members of the governor's staff about the
14 selection of underwriters prior to that selection
15 being made?

16 A I was aware that there were some
17 discussions in the governor's office regarding the
18 fact that there was a contest among, I think, three
19 different groups for the business. Beyond that, I
20 don't recall the specifics of any particular
21 conversation.

22 Q Were you ever involved in any discussions

1 with the governor with regard to the selection of
2 underwriters for the police radio contract?

3 A Not that I recall.

4 Q Do you recall what spurred the discussion
5 about the selection of the three different groups,
6 the competition between the three different
7 underwriting groups?

8 A I'm not sure I understand your question.

9 Q Well, what caused the subject to come up in
10 the course of conversation with members of the
11 governor's staff?

12 A Well, it was something that was being dealt
13 with by the state.

14 Q Are you aware whether any of the
15 underwriting firms were favored by the governor?

16 A I have no impression that he had any
17 particular preference as to what group of firms was
18 selected.

19 Q Is that a current impression or at the
20 time?

21 A I didn't have any impression at the time,
22 and I don't have any reason to have an impression at

1 this time.

2 Q So you haven't come to learn that he did
3 have a preference for one firm or the other?

4 A I don't believe so, no.

5 Q I would like to identify for you a -- this
6 might help -- may or may not help refresh your
7 recollection with regard to conversations you might
8 have had with regard to this issue. It's a one-page
9 document which bears the Bates stamp DKS N 018184, and
10 it's a memorandum to Betsey Wright from Mike Gaines
11 dated May 15, 1985. The subject is ASP Communication
12 System. I'll read it to you into the record seeing
13 as how you don't have the benefit of having the
14 document in front of you.

15 It reads "the financing K will be discussed
16 by the communications subcommittee tomorrow and by
17 legislative counsel on Friday. The Capital Resources
18 Group, which did not get the ASP Communications' nod,
19 intends to contest the award to Hutton, Lasater,
20 Raney on the following points. 1, capital offer at a
21 fix the rate rather than floating rate, and Capital's
22 proposal was based on monthly payments by the state

38

1 to repay the debt while H, L, R based their proposal
2 on payments every six months. Capital points out
3 that the legislation (written by H, L, R) requires
4 monthly payments. (Act 817 attached. See highlights
5 on page 5.)

6 "A proposal based on six-month payments
7 can be lower because it allows the state to earn
8 interest on the pledged revenues during that
9 six-month period. Capital argues that this is not
10 allowed under the law as written.

11 "I have discussed this with Sam and he is
12 looking into it."

13 Do you recall having discussions with
14 Betsey Wright of this nature about the subjects
15 identified in the memo I just read to you?

16 A I have no specific recollection of it.
17 Given the memo, it's entirely likely I did.

18 Q Do you recall looking into it, looking into
19 the different -- reviewing the different proposals
20 that were presented to the state police commission?

21 A I have no specific recollection at this
22 point of having done so. It's entirely likely that I

1 did.

2 Q Do you recall whether you spoke with any of
3 the commissioners on the state police commission
4 about the proposals that were submitted?

5 A I don't recall having talked directly to
6 any members of the commission. I may have, but I
7 don't have any recollection of having done so.

8 Q Were you ever provided with the proposals
9 that were presented to the state police commission
10 for the underwriting by the different firms that
11 participated in the competition?

12 A I don't recall whether I ever looked at all
13 of the proposals in any detail. It's quite possible
14 that I looked at them, but I simply don't recall.

15 Q Were you ever provided with an analysis of
16 the different proposals that was prepared by the
17 state police or someone hired by the state police?

18 A I don't recall. It's entirely possible
19 that I saw them.

20 Q After the time the contract was awarded to
21 the Lasater, Hutton, Raney group, did you have any
22 discussions with anyone at that firm?

1 A During what period of time?

2 Q The contract I believe was awarded by the
3 commission on May 10, any time after that, 1985.

4 A I don't recall.

5 Q Did you have any discussion with any
6 members of the Capital Resources Group identified in
7 the memorandum I just read to you?

8 A I don't recall.

9 Q Are you aware whether Betsey Wright with
10 any contact with anyone at the Lasater firm?

11 A I don't recall.

12 Q I would like to read another document,
13 describe it to you and then I'm going to ask you a
14 couple of questions. It's a one-page document
15 again. It bears the Bates stamp DKS N 018182. It's
16 dated 5-13-85 and there's some handwritten notes on
17 the top which read "file ASP Comm." It says "to Gov"
18 and there's a check mark through that, "from BW, re:
19 Knox Nelson, state police communications." Then
20 there's a remarks section which reads "word I am
21 picking up through Mahlon is that Knox intends to
22 call a special meeting of his telecommunications

1 study committee this week and that he is aiming for
2 not letting a contract at all with investment firm
3 but rather to borrow money from PERS. I assume he is
4 talking about a low interest loan, but there's no way
5 to justify that as the required PERS prudent
6 investment. I have alerted Drake and suggested that
7 he get an ASP commissioner to set an appointment with
8 Senator Nelson ASAP to see if he has any questions
9 about the proposal. Any other suggestions."

10 Q Were you ever made aware of Knox Nelson's
11 intention to get a low interest loan through PERS
12 rather than doing a financing through a bond
13 underwriting?

14 A I was aware that he had some interest in
15 that proposal.

16 Q How did you become aware of that?

17 A Probably from a conversation with Betsey
18 Wright.

19 Q What was the substance of that
20 conversation?

21 A I don't recall the specifics of it.

22 Q Do you recall it generally?

1 A Not beyond what I've already said.

2 Q Did she ever tell you that she spoke to
3 Michael Drake about Knox Nelson's intention to get a
4 low interest loan from the retirement fund?

5 A She may have. I don't recall at this
6 point.

7 MR. O'CALLAGHAN: Mr. Bratton, Mr. Kravitz
8 is departing for a short time. I just wanted to let
9 you know he was leaving the room.

10 THE WITNESS: All right.

11 BY MR. O'CALLAGHAN:

12 Q Did you have any conversations with anyone
13 at the state police commission about the process of
14 choosing the underwriters?

15 A Not that I recall.

16 Q Did Betsey Wright discuss with you that
17 process at any time?

18 A I probably had some discussions with her
19 about it.

20 Q Do you recall any discussions that you had
21 with her on that subject?

22 A No.

1 Q I should have described this to you
2 earlier, but I'm going to go back briefly to a
3 discussion of the Mitchell, Williams firm and their
4 involvement in drafting legislation and any
5 coordination they might have done with the governor's
6 office. And I have before me a multipage document
7 with a cover page on Mitchell, Williams, Selig,
8 Jackson & Tucker letterhead. It's Bates stamped DKS
9 017843 through DKS 017853. And it's dated March 8,
10 1985 and it's addressed to Mr. Sam Bratton, office of
11 the governor, re: state police financing bill. The
12 letter reads "Dear Sam. Enclosed is an original and
13 three copies of an amendment which will substitute
14 the language of the bill we discussed over the phone
15 today with language of the existing bill. Please
16 review the amendment and let me know if you have any
17 questions or want me to do any redrafting." It's
18 signed "with best regards, I am cordially yours, John
19 S. Selig."

20 Do you recall receiving that letter from
21 Mr. Selig?

22 A I don't recall receiving it.

1 Q Just to sort of more fully describe the
2 document, the following nine pages, first page reads
3 the Hall of the House of Representatives, 75th
4 General Assembly, and it's for bill 944, to amend
5 House Bill 944. It reads "for an act to be entitled
6 'an act authorizing the leasing of communications
7 equipment for the department of the Arkansas State
8 Police providing for the payment and security of the
9 cost of the equipment and for other purposes'."

10 The second sentence of that letter which I
11 just read to you reads "please review the amendment
12 and let me know if you have any questions or want me
13 to do any redrafting."

14 With regard to the request to let him know
15 whether you wanted him to do any redrafting, did you
16 have occasion to make suggestions for redrafting or
17 ask for redrafting of the legislation to the Mitchell
18 firm?

19 A In response to that letter?

20 Q Why don't we start in general. Do you
21 recall ever doing that?

22 A I don't recall doing it. It's entirely

1 possible that there was some problem with whatever
2 draft they had done originally and that we may have
3 suggested changes to it that were made by the
4 Mitchell firm. That's certainly a possible
5 interpretation of Selig's letter, but I don't recall
6 what the specific nature of that request was.

7 Q Just generally I'm trying to get a feel for
8 how the relationship was between your office and the
9 Mitchell firm and just the mechanics of how the
10 legislation was written and then brought through,
11 whether that's consistent with how you operated.

12 A Well, there really wasn't any particular
13 rules, if you will, for how we operated on input on
14 legislation. There were all types of different
15 situations depending on where the legislation was
16 coming from and exactly what our role was in it. And
17 I simply don't recall what changes may have been made
18 from a first draft as a result of that amendment or
19 why they were made. We would handle anywhere from 30
20 to 60 pieces of legislation that were governor's
21 office legislation in every session and dozens and
22 dozens of others that we had some interest in.

1 That's been a long time ago and I simply
2 don't remember what changes may have been done or why
3 they were done, but it's entirely possible that there
4 were some problems with whatever first draft we had
5 and that we asked Selig or the Mitchell firm to make
6 revisions. That is to say, that certainly seems to
7 be what his letter implies, but beyond that, I don't
8 have any specific recollection of what that might
9 have been.

10 Q Do you recall any specific provisions that
11 the governor's office wanted to see included in the
12 legislation? I think you said you reviewed that
13 earlier before the deposition, whether you recall
14 that?

15 A I just looked very briefly at the act. I
16 don't recall at this point anything that may be in
17 the legislation that might not have been in a first
18 draft. I simply don't have any recollection.

19 Q Do you recall whether in the legislation it
20 had provision which called for the advice and consent
21 of the legislature on the selection of the
22 underwriting team?

1 A I don't recall one way or the other.

2 Q So you don't recall whether that was the
3 provision that the governor's office wanted to see
4 put in there? You mean a provision that ended up in
5 there requiring that it be reviewed by the
6 telecommunications subcommittee or some other
7 provision that wasn't in the final version?

8 A No, the one that was in there, in the final
9 version. Is that something we suggested be
10 included?

11 Q Yes, sir, that's the question.

12 MR. FEUER: Michael, just so we're clear, I
13 think you used the phrase "advice and consent." I'm
14 looking at page DKS N 018198, which is the sixth page
15 of Act 817 as signed by Governor Clinton on April 4,
16 1985, and section 6, line 22 there says "for their
17 advice and counsel."

18 BY MR. O'CALLAGHAN:

19 Q I apologize, I misspoke. So the specific
20 language is "advice and counsel."

21 A I don't recall whether that's something
22 that was in the bill as drafted by the Mitchell firm

1 or whether that's something the governor's office
2 suggested be included. It is probably something that
3 if it were not -- if it had not been included
4 originally, we might well have suggested that it be
5 included.

6 Q Do you recall at what point the governor's
7 office first began working with the Mitchell firm?
8 Was it when they first began working on the
9 legislation or had they already begun the work on it?

10 A I don't recall.

11 Q Do you recall whether the first time that
12 the granting of the contract to the Lasater, Hutton,
13 Raney group was brought before the legislative
14 council, whether the council voted favorably on the
15 contract?

16 A I don't recall.

17 Q I would like to read you a portion of the
18 minutes of the meeting of the Arkansas legislative
19 counsel from Friday, May 17, 1985. It bears our
20 Bates stamp, DKS N 027211 through DKS N 027222. This
21 was a document produced to the committee. And I will
22 mention that it's not signed but it is a copy of the

1 minutes. And underneath the subheading of the
2 "communications study committee, state police
3 communications network," there's a portion which
4 reads "the following roll call vote was then taken on
5 the main motion by Senator Hoffman to give favorable
6 advice to the state police commission's
7 recommendation on the financing proposal submitted
8 for the acquisition of the new communications
9 network. The motion failed of adoption, 14 for and
10 12 against, with 16 votes being necessary for
11 passage."

12 Does that refresh your recollection as to
13 how the legislature first received the state police
14 commission recommendation on the financing proposal?

15 A It doesn't particularly refresh my memory,
16 but I have no reason to think that's inaccurate.

17 Q Are you aware of any lobbying done by the
18 governor to any state legislatures to give favorable
19 advice and counsel to the financing proposal that was
20 recommended by the state police commission?

21 A I'm sure we did.

22 Q Were you involved in any of that lobbying?

1 A I probably was.

2 Q Do you recall with whom spoke with?

3 A No, I don't.

4 Q What was the nature of the lobbying that
5 was conducted?

6 A It would have been to try and line up
7 sufficient votes to gain a favorable advice from the
8 council for the action that had been taken by the
9 state police commission.

10 Q Do you recall whether anyone at Lasater &
11 Company approached anyone in the governor's office
12 about lobbying for the recommendation made by the
13 state police commission?

14 A Not that I have any specific recollection
15 of.

16 Q Are you aware of any influence that was
17 brought to bear by anyone in the governor's office to
18 the state police commission with regard to which
19 underwriting firms to go with on the police radio
20 offering?

21 A Not that I have any recollection of.

22 Q Have you ever heard that happen, that

1 pressure was brought to bear on any of the police
2 commissioners to choose a specific underwriting firm
3 or group of firms?

4 A Not that I have any recollection of.

5 Q At the time in around May -- let me
6 rephrase that.

7 Between the time that the beginning of the
8 legislative session in January of '85 and the time of
9 the -- that the legislature gave favorable advice and
10 counsel for the recommendation made by the state
11 police commission, was there any concern -- let me
12 rephrase that.

13 Are you aware of -- was there any concern
14 expressed by anyone in the governor's office with the
15 use of the Lasater firm as a participant in the bond
16 underwriting for the radio system?

17 A Not that I recall.

18 Q During the time period, were you aware of
19 any illegal activity that was engaged in by Dan
20 Lasater or anyone at Lasater & Company?

21 A No.

22 Q Are you aware of whether anyone in the

1 governor's office had knowledge of illegal activity
2 engaged in by Mr. Lasater or anyone at Lasater &
3 Company?

4 A Not that I was aware of.

5 Q Did anyone from the governor's office make
6 inquiries of the state police as to whether there
7 were any ongoing investigations involving Mr. Lasater
8 during the time period I just identified?

9 A I don't know.

10 Q Did you have any conversations with the
11 governor during that time period about any possible
12 legal activity engaged in by Mr. Lasater?

13 A I don't think so. Not that I recall.

14 Q Did you attend any meetings with regard to
15 the police radio system which the governor attended
16 as well?

17 A Yes.

18 Q How many meetings was he involved in or did
19 he attend?

20 A I have no idea. There were any number of
21 meetings during the legislative session at which the
22 governor would have been present where that would

1 have been one of a number of issues that were being
2 discussed.

3 Q During any of those meetings, were the
4 selection of underwriters a topic of discussion?

5 A I'm sorry?

6 Q During any of the meetings where the
7 governor participated, was the selection of
8 underwriters a topic of discussion?

9 A Not that I recall.

10 Q Between the time period January 1983 and
11 October 1986, were you familiar with the relationship
12 that existed between Governor Clinton and Dan
13 Lasater?

14 A I'm sorry, I couldn't hear that question.

15 Q Were you familiar with the relationship
16 that existed between Governor Clinton and Dan Lasater
17 between 1983 and 1986?

18 A I don't know what their relationship was or
19 was not.

20 Q Did you ever have any conversations with
21 the governor that involved Mr. Lasater?

22 A I don't recall.

1 Q Were you ever at any meetings with the
2 governor that Mr. Lasater attended?

3 A I don't believe so.

4 Q How about social functions where the
5 governor and Mr. Lasater attended?

6 A I don't know, don't have any recollection.

7 Q Do you know whether or not Mr. Lasater ever
8 visited the governor's mansion?

9 A I have no idea.

10 Q Did Governor Clinton ever visit Mr. Lasater
11 at his offices at Lasater & Company?

12 A I have no idea.

13 Q Have you ever flown on a Lasater-owned
14 aircraft?

15 A No.

16 Q Do you know if the governor has ever flown
17 on a Lasater-owned aircraft?

18 A I don't know.

19 Q Do you know Roger Clinton?

20 A Yes.

21 Q How do you know him?

22 A Because he was the governor's brother.

1 Q During the time period we have been
2 discussing, January 3 through October 1986, how well
3 did you know Mr. Clinton? Or did you know him? Did
4 you know him is the first question at that point.

5 A Roger Clinton?

6 Q Yes, sir.

7 A I knew who he was because he was the
8 governor's brother. I didn't know him beyond saying
9 hello and speaking to him.

10 Q During that time period, did you ever
11 become aware that Governor Clinton asked Mr. Lasater
12 to find Roger Clinton a job?

13 A I don't think I was aware of that at the
14 time.

15 Q Were you aware that Mr. Lasater loaned
16 Roger Clinton money during that time?

17 A I'm aware of that now. I wasn't aware of
18 it at the time.

19 Q How did you become aware of that?

20 A From press reports in the last few years.

21 Q Do you know whether during the period 1983
22 through October 1986, whether Governor Clinton had

56

1 any knowledge of the loan from Mr. Lasater to Roger
2 Clinton?

3 A I don't know.

4 Q During the year 1984, did you attend any
5 fund-raisers held by Mr. Lasater or sponsored by him?

6 A I don't believe so.

7 Q Are you aware that Mr. Lasater held any
8 fund-raisers for the governor?

9 A I don't know.

10 Q But you have attended fund-raisers for the
11 governor; is that right?

12 A Certainly.

13 Q Are you personally aware of any
14 contributions Mr. Lasater made to Clinton campaigns
15 or inaugurals?

16 A I don't recall.

17 Q Did anyone at Lasater & Company attempt to
18 provide the governor or anyone in his office money in
19 connection with any state bond underwritings?

20 A Not that I ever had any knowledge of.

21 Q Have you ever been told that that happened?

22 A No.

1 Q Do you have knowledge of whether anyone
2 ever offered a member of the AHDA or ADFA board cash
3 or other remuneration in connection with the bond
4 underwriting?

5 A I don't believe I've ever heard that
6 allegation.

7 Q I guess just unfortunately, you're a lawyer
8 yourself, Mr. Bratton. I just want to make sure
9 we're clear. Do you have any knowledge of that
10 happening rather than just hearing it?

11 A No, I have no knowledge of it.

12 Q Do you have any knowledge whether anyone
13 offered cash to a member of the Arkansas State Police
14 Commission in connection with the police radio bond
15 underwriting?

16 A I have no knowledge of that happening.

17 Q Do you have any knowledge whether
18 Mr. Lasater provided any money to the governor or
19 anyone in the governor's office in connection with
20 the state bond underwriting?

21 A No.

22 Q Do you know or have you ever heard that

1 money laundering was conducted in connection with
2 AHDA or ADFA bond offerings or underwritings?

3 A I'm sorry. I didn't understand the
4 question.

5 Q Certainly. Do you have any knowledge or
6 have you ever heard of whether there was any money
7 laundering associated with the AHDA or ADFA bond
8 offerings or underwritings?

9 A In the last year or so, I had seen some
10 ludicrous suggestions that that sort of thing
11 happened. I never heard any suggestions of that at
12 the time I was in the governor's office.

13 Q And where did you hear those suggestions or
14 how did you hear it?

15 A Well, I think it was articles from the
16 American Spectator or other such publications.

17 MR. O'CALLAGHAN: Off the record for just a
18 second, Mr. Bratton. I'm going to take a minute to
19 review my documents and make sure that I have covered
20 everything I want to. I should be wrapping up soon,
21 and if Mr. Feuer has some questions, he'll follow
22 up. So if you just bear with me for a minute.

1 THE WITNESS: Sure thing.

2 (Discussion off the record.)

3 BY MR. O'CALLAGHAN:

4 Q Back on the record.

5 Mr. Bratton, while you were in the
6 governor's office during the period 1983 through
7 1986, did you have any liaison duties with regard to
8 the Arkansas Securities Department?

9 A Yes.

10 Q During that time period who was the head of
11 the Arkansas Securities Department?

12 A Beverly Bassett.

13 Q And again during the time period 1983
14 through 1986, did you have any conversations with
15 Ms. Bassett with regard to either Collins, Locke &
16 Lasater or Lasater & Company?

17 A Yes.

18 Q Was there more than one conversation?

19 A I probably had more than one conversation
20 with her about Lasater's firm, but I can't tell you
21 for sure what time frames those conversations were
22 in, whether they are within the time frame we're

60

1 talking about or whether they were at a later time
2 frame.

3 Q Well, do you recall what the subject of the
4 first discussion you had with her with regard to the
5 Lasater firm was?

6 A No.

7 Q Do you recall the subject of any of the
8 discussions you had with regard to the Lasater firm?

9 A I had some discussions with her -- again,
10 I'm not sure whether it was before '86 or after '86
11 at this point -- regarding some problems that Lasater
12 had with the NASD and later, as a result of that I
13 think, with the Arkansas Securities Department.

14 Q What were the nature of the problems that
15 you discussed?

16 A I don't recall the specifics of it.

17 Q How was that brought to your attention?

18 A By Ms. Bassett, as I recall.

19 Q And why did she bring this issue to your
20 attention?

21 A Well, I was the liaison with her agency,
22 and one of my responsibilities was that keep up with

1 matters that were being dealt with by the agencies
2 that I had liaison responsibilities with.

3 Q She was contacting you about a specific
4 potential violation involving Lasater & Company?

5 A She contacted me regularly about a wide
6 range of issues that her agency was dealing with at
7 any particular time.

8 Q Did she commonly contact you with regard to
9 possible investigations of violations -- let me
10 rephrase the question.

11 With regard to the Lasater firm, she
12 informed you about possible problems that they were
13 having with the NASD; is that right?

14 A That's my recollection.

15 Q Was it common for her to bring to your
16 attention problems that financial firms were having
17 with the NASD?

18 A Yes.

19 Q How was that usually presented?

20 A Usually in telephone conversations.

21 Q And what was the purpose of informing you
22 about that, about possible problems that financial

1 firms were having with the NASD?

2 A Well, it was generally in terms of whether
3 those problems would also involve action that the
4 state securities department would be taking.

5 Q Did she inform you of all action that the
6 state securities department took with regard to
7 potential violations committed by firms?

8 A I'm sorry. I didn't hear the first part of
9 the question.

10 MR. O'CALLAGHAN: Why don't you read it
11 back?

12 (The reporter read the record as requested.)

13 THE WITNESS: I don't know that she advised
14 me of every potential enforcement action that the
15 department was planning to take, but it was fairly
16 routine for her to do so, so the vast majority of
17 those type actions she would have made me aware of.

18 BY MR. O'CALLAGHAN:

19 Q What was the purpose of informing you about
20 the department's taking this kind of action?

21 A Because that was my responsibility was to
22 know what actions were being taken by the agencies

1 that I had liaison responsibility for.

2 Q So she gave you regular updates about
3 potential investigations being conducted by the
4 department?

5 A I don't believe I said potential
6 investigations. It was routine practice for her to
7 advise me of actions that the department was about to
8 take in terms of regulatory actions.

9 Q When we spoke back in January, I showed you
10 a note on state of Arkansas stationery, "Beverly
11 Bassett, Securities Commissioner" stationery. It's
12 dated I believe 5-28-86, and it reads, or could be
13 5-20. It's kind of hard to tell from the copy. It
14 reads "Sam, enclosed for your information is a note
15 we received today from Bob McHenry, one of the
16 attorneys for David Collins, BB." Then underneath
17 that is the "Beverly Bassett, securities
18 commissioner." Bates is DKSJN 027258.

19 After having read that to you, and I
20 believe you stated earlier that you recognized that
21 as Beverly Bassett's handwriting, does that refresh
22 your recollection as to -- is that the contact that

64

1 you just identified with Ms. Bassett?

2 A I don't know whether that was the first
3 conversation I had with her regarding that firm or
4 not.

5 Q Other than just generally giving an update
6 as to the work that the state securities commission
7 was doing, did Ms. Bassett relate to you any other
8 reason why she was bringing this to your attention?

9 A I don't recall.

10 Q Was she ever told to keep an eye out for
11 any actions involving the Lasater firm?

12 A Not by me.

13 Q Do you know if she was told by anyone to do
14 that?

15 A Not that I know of.

16 Q Do you know if she was told to inform the
17 governor's office about potential action --

18 A I'm sorry, you're breaking up. I couldn't
19 hear the question.

20 Q I'm sorry, I was talking into the table.
21 Are you aware whether she was or anyone at the
22 commission was told to report to the governor's

1 office with regard to any action the commission was
2 taking with regard to firms that were involved in
3 state business, doing business with the state,
4 rather?

5 A Not that I'm aware of.

6 Q Do you know if that was a policy?

7 A I'm sorry. I didn't follow your question.

8 Q Do you know if that was a policy of the
9 commission to keep the governor's office informed of
10 any action or potential action contemplated against
11 firms that were doing business with the state of
12 Arkansas?

13 A It was common practice for her to advise
14 the governor's office of action that the department
15 was taking against any licensees.

16 Q Did the commission file a periodic report
17 with regard to the work that they were conducting?

18 A No.

19 Q Are you aware of any other -- can you
20 identify any other instances during the time period
21 1983 through 1986 that Ms. Bassett informed you about
22 any potential action the commission was going to take

1 against other firms in Arkansas?

2 A I'm sorry, I couldn't hear part of that
3 question.

4 MR. O'CALLAGHAN: Would you read it back,
5 please?

6 (The reporter read the record as requested.)

7 THE WITNESS: I don't know within that
8 specific time frame, but there were several other
9 occasions where she would advise me in advance of
10 regulatory actions that the department was planning
11 on taking.

12 BY MR. O'CALLAGHAN:

13 Q Was that with regard to investigatory or
14 disciplinary action with regard to a financial firm?

15 A Yes.

16 Q Do you recall what firm?

17 A There were several different ones during
18 that period of time and later.

19 Q What period of time were you referring to?

20 A Well, from whatever time she took over as
21 securities commissioner until I left the governor's
22 office in '89.

1 Q I'm going to read you another note on
 2 Beverly Bassett stationery, I believe dated 5-20-86.
 3 It reads "Sam, FYI, by the way the complaint does not
 4 allege what is stated in paragraph" -- it's difficult
 5 to tell what the paragraph is that is identified but
 6 in paragraph unidentifiable, I think it's in
 7 paragraph 1 -- "in the Gazette article. They must be
 8 referring to paragraph 14 of the complaint. The SEC
 9 and NASD did file complaints on this matter back in
 10 1983. No complaint was ever filed by the" --

11 A Your voice is coming and going. I can't
 12 hear the question.

13 Q "The SEC and NASD did file complaints on
 14 this matter back in 1983. No complaint was ever
 15 filed by the Arkansas Securities Department." Does
 16 that help refresh your recollection as to the
 17 conversation you had with Ms. Bassett on this matter?

18 A No, it doesn't.

19 Q To your recollection, do these notes refer
 20 to action being taken against Lasater & Company?

21 A I don't know.

22 Q Did you ever become aware that Lasater &

1 Company had problems with their net capital levels at
 2 any time?

3 A At some point. I don't recall when that
 4 was.

5 Q Do you recall whether it was
 6 contemporaneous with when the company was
 7 experiencing those problems?

8 A I don't recall the time frame.

9 Q So you don't recall whether it was before
 10 or after it happened?

11 A Do I recall whether I knew it at the time
 12 it was happening?

13 Q Yes, sir.

14 A I didn't follow your question.

15 Q That was basically the question, yes, sir.

16 A I think I became aware of it shortly after
 17 the securities department became aware of it, at
 18 whatever point that was I simply don't remember.

19 Q How was it brought to your attention?

20 A I'm sure by Ms. Bassett.

21 Q Do you recall how she brought that to your
 22 attention, whether she called you on the phone or

1 wrote you a letter, or how it was done?

2 A Probably in a telephone conversation. That
3 was normally the way we communicated.

4 Q Was there any action that was suggested by
5 her?

6 A I don't recall.

7 Q Typically would she make a recommendation
8 or would you make a recommendation as to what should
9 be done with regard to finding out that a company was
10 in possible violation of NASD rules?

11 A It wasn't my responsibility to make
12 recommendations to her. The normal course of events
13 was when the department had determined what action
14 was appropriate, she would advise me of what action
15 they planned to take.

16 Q So what was the purpose of informing you
17 of --

18 A I can't hear you.

19 Q I'll withdraw the question.

20 Did you keep -- did you update the governor
21 on matters of this nature after you received reports
22 from Ms. Bassett?

1 A On some occasions, I would. On others, I
2 wouldn't.

3 Q Do you recall whether you informed him
4 about reports on the Lasater firm?

5 A I don't recall.

6 Q But you do recall giving him updates on
7 Ms. Bassett's report on different firms at some
8 point?

9 A On occasions I would. Sometimes I
10 wouldn't.

11 Q And what would be the purpose of informing
12 the governor about that?

13 A Well, particularly if the department was
14 going to take some major enforcement action so he
15 wouldn't read it in the newspaper.

16 Q Did you ever hear that in relation to the
17 police radio bond financing and the proposal
18 submitted by Lasater & Company, that there were
19 suspicions that the bid submitted by Lasater &
20 Company was lower than the price they could deliver?

21 A I don't recall that.

22 Q Have you ever heard that?

1 A I think I may have heard recently that
2 there was some allegation to that effect at the time,
3 although I don't recall having heard it at the time.

4 Q How did that come to your attention?

5 A I don't know.

6 Q Do you recall who came up with the idea of
7 financing the police radio through a bond offering?

8 A I don't recall specifically, but the
9 financing mechanism was one very similar to what had
10 been used to finance the construction of the new
11 state police headquarters, I believe, and was
12 somewhat similar to a financing arrangement that had
13 been used to finance some projects for the department
14 of corrections, so it was similar to things that we
15 had done before.

16 Q Was it a suggestion made by someone in the
17 state government or was it a suggestion made by one
18 of the outside underwriters?

19 A I don't recall, but it was not anything
20 particularly novel.

21 Q I'm just going to -- this might help you,
22 it may not, and I should be done pretty soon. It's a

1 document that bears the Bates stamp DKS N 017951
2 through 017954. It's a memorandum to Sam Bratton
3 from Bobby Roberts, dated November 9, 1984, subject,
4 state police budget.

5 In the second paragraph of the memorandum,
6 it reads "we should also approve the \$26 million for
7 the communications system with the following
8 stipulations. 1, it be purchased either by lease or
9 bonding over a 10-year period with the funds to come
10 out of driver's license fees. These dollars will
11 then be replaced from general revenue."

12 Do you recall receiving a memorandum from
13 Mr. Roberts of this nature?

14 A I don't recall it, but I probably did.

15 Q Does that republic refresh your
16 recollection --

17 A I couldn't hear you.

18 Q Does that help you remember where the idea
19 for doing a bond underwriting first came from,
20 whether it was his idea or someone --

21 A I don't recall whether Bobby was the first
22 one to suggest that or not. As I said, that wasn't

1 anything particularly novel or unique. It was
2 something we had done in the past with some other
3 projects. Bobby may have been the first one to
4 suggest it be done for the state police radio system
5 or someone may have suggested it to him. I simply
6 don't know, but as I say, it wasn't anything
7 particularly unique.

8 MR. O'CALLAGHAN: Off the record for a
9 second.

10 (Discussion off the record.)

11 BY MR. O'CALLAGHAN:

12 Q Back on the record. Mr. Bratton, in front
13 of me I have a one-page document, it's a handwritten
14 note, bears a Bates stamp DKSJ 017800. And at the
15 top left-hand corner, it looks like it says 3-4.
16 There's a list of names. Paul Young, M. Drake, John
17 Selig, Mahlon, Joe, then Mike G. And there's some
18 handwriting on the upper right-hand corner which
19 reads "SESS-state place radio." Then it has a
20 description which reads "10-year/purchase. Hutton.
21 Government lease be would lessor, signed ownership to
22 trustee, sell certificate. Participate. 4.7 rate.

1 Net to state. Reads will insure project. 1 percent
2 cost for insure. Have DR license revenue as pledged
3 to insurer by annual appropriation. Without pledge
4 insure be about 1.5 percent. 26,420,000 total
5 funding. Annual debt service -- gross. 3,500,000
6 dollars/net. \$3,050,000." It says "\$23,500,000
7 needed."

8 My first question is when you kept
9 documents, did you ever make notations in the upper
10 right-hand corner identifying what the document was?
11 Was that a practice you used?

12 A What is the notation in the upper
13 right-hand corner?

14 Q I believe it says "SESS," S-E-S-S, "state
15 police radio."

16 A Yes, and that would be a reference as to
17 where something should be filed, and SESS would be
18 shorthand for legislative session files. That would
19 be a shorthand I would have used.

20 Q And just also to help you identify, it's
21 written at an angle across the right hand top
22 corner. I don't know if that was a common practice

1 of yours or not.

2 A It was.

3 Q Do you recall writing the note that I just
4 described to you?

5 A No.

6 Q Do you recall a meeting which involved Paul
7 Young, Michael Drake, John Selig, somebody by the
8 name of Mahlon, possibly Mahlon Martin, somebody by
9 the name of Joe and somebody by the name of Mike G.?

10 A I don't recall it. It sounds like it's --
11 without seeing the handwriting, I don't know whether
12 it's a note -- either notes I made or notes that were
13 sent to me for filing.

14 Q The handwriting I can identify pretty
15 confidently is the same as the handwriting of the
16 notation in the upper right-hand corner. It appears
17 to be the same. And I believe it's similar to other
18 handwriting that you've identified as being your
19 own.

20 A It may well be, then. I don't recall the
21 meeting specifically.

22 Q But the name I just read you, would that be

76

1 typical for a group meeting with regard to the state
2 police radio system?

3 A Could well have been.

4 Q So were you having conversations with
5 members of Raney and Lasater and the Mitchell firm
6 with regard to the mechanics of what the financing
7 would be for a potential offering?

8 A That's what it sounds like.

9 Q Did you engage in conversations with
10 underwriting firms of this nature?

11 A Of what nature?

12 Q Discussing the specific terms of a
13 potential underwriting?

14 A Well, I don't think that is specific terms
15 of an underwriting.

16 Q Rather the mechanics of the financing,
17 excuse me, how it would be set up.

18 A We may well have had conversations with
19 folks either -- it may well have been at their
20 request or ours. I have no idea. Obviously, there
21 was some discussion.

22 Q I have another document which might clear

1 up a question I asked you earlier which reads "state
2 police communications bid analysis." It bears a
3 Bates DKS 027364 through 368, and again it has
4 angled handwriting, upper right-hand corner that says
5 "state police" and it's underlined.

6 It reads "attached are the analysis sheets
7 used by the state police commission to arrive at the
8 decision to award the financing to E.F. Hutton,
9 T.J. Raney and Lasater. Do you recall receiving a
10 document like that?

11 A I don't recall, but as I had earlier, I may
12 well have.

13 Q That doesn't refresh your recollection as
14 to whether you reviewed analyses that were done by
15 state police commission to arrive at their decision
16 to award the financing to the --

17 A As I said before, I don't recall whether I
18 did or not. It's entirely possible that I saw the
19 document. I don't recall.

20 Q And I identified to you earlier two notes
21 from Beverly Bassett and I brought down a full set of
22 documents that were produced in connection with those

1 or sequentially with those documents. And the first
2 note which read "enclosed for your information is a
3 note we received today from Bob McHenry, one of the
4 attorneys for David Collins." And it reads -- it's
5 second page is "memo from Bob McHenry to Tom Bull,
6 5-20-86. Subject, David A. Collins." Then it reads
7 "Dear Tom. David John Haley et al., all noted a
8 mistake in George Bentley's article regarding Collins
9 versus Lasater et al. We did not contend that
10 Lasater's actions in May, June, July and August of
11 1983 had anything to do with the Arkansas Securities
12 Commission's complaints of last week."

13 Does that refresh your recollection as to
14 conversations you had with Ms. Bassett with regard to
15 the Lasater firm?

16 A No, it does not.

17 Q Do you recall receiving a copy of a
18 complaint made by Mr. Collins against Dan Lasater?

19 A I don't recall having received a copy.
20 It's entirely possible I did.

21 Q Other than the problems with the net
22 capital that were identified for you by Ms. Bassett

1 that Lasater & Company experienced, do you recall any
2 other conversations you had with her with regard to
3 Lasater & Company?

4 A I don't recall.

5 Q Mr. Bratton, did you ever attend a meeting
6 in or around January of 1985 sponsored by Lasater &
7 Company and E.F. Hutton at the Legacy Hotel in Little
8 Rock?

9 A I don't remember having attended any
10 meeting.

11 Q Do you recall if you attended any meetings
12 sponsored by Lasater & Company with regard to making
13 a pitch to get state bond or financing business from
14 the state?

15 A Not that I recall.

16 MR. O'CALLAGHAN: I have no further
17 questions at this time.

18 EXAMINATION

19 BY MR. FEUER:

20 Q Mr. Bratton, let me introduce myself
21 again. My name is Mitchell Feuer. I'm counsel on
22 the Democratic staff of the Senate Banking

80

1 Committee. And for purposes of this deposition, I'm
2 going to ask you a few questions on behalf of the
3 Democratic Senators who serve on the special
4 Whitewater committee.

5 A I understand.

6 Q If you can't hear my question or you don't
7 understand my question, please let me know and I'll
8 repeat it or rephrase it for you. The way these
9 depositions are conducted, the Republicans go first
10 and the Democrats go second, so there -- I'm going to
11 cover a few of the areas that Mr. O'Callaghan has
12 already covered. I apologize for the repetition.

13 A I understand.

14 Q And I will try to make it as quick as
15 possible so you can go back to the more important
16 business of looking after the interests of Arkansas's
17 utility customers.

18 When the Clinton administration assumed
19 office in 1983, did Governor Clinton have a policy of
20 favoring inclusion of Arkansas securities firms in
21 state underwriting business?

22 A Yes.

1 Q Did the Clinton administration beginning
2 in --

3 A I don't know precisely when that policy was
4 developed. When I went to work back on the
5 governor's staff in late '83, it was my understanding
6 that was the policy regarding state bond business.

7 Q And when you went back on Governor
8 Clinton's staff in late 1983, was the Clinton
9 administration using a greater number of securities
10 firms for state bond underwriting work than had the
11 administration of his predecessor, Frank White?

12 A It is my impression that that was the goal,
13 to have state bond business be as open and available
14 to all companies in the state as possible. I don't
15 know what the White administration record had been
16 specifically.

17 Q Were certain underwriting firms excluded
18 because of the -- strike that.

19 Were certain underwriting firms excluded
20 from state underwriting business because they had
21 failed to support Governor Clinton?

22 A I certainly never had that impression.

1 Q Did you have an impression as to whether
2 the Stevens, Inc. firm had been supportive of
3 Governor Clinton or opposed to Governor Clinton?

4 A At various times it was my impression that
5 the Stevens firm had both supported and opposed
6 Governor Clinton or on some occasions in some parts
7 of the firm supported him and others opposed him.

8 Q Was the Stevens firm ever excluded from
9 state bond underwriting contracts because they had at
10 any time opposed Governor Clinton?

11 A It was my impression that the Stevens firm
12 had a smaller share of state bond business during the
13 Clinton administration than they had historically
14 had, but that was largely because they historically
15 had had a very, very high percentage of that business
16 and the Clinton administration made a concentrated
17 effort to open the process so that other smaller
18 Arkansas firms could participate.

19 Q Were you aware that an Arkansas state
20 trooper had been killed while outside of radio
21 contact with his home base?

22 A Yes.

1 Q Did the killing of that state trooper
2 receive a lot of attention in the press?

3 A Yes.

4 Q Did the fact that the trooper was killed
5 while outside of radio contact with his home base or
6 with backup units, did that fact receive attention in
7 the press?

8 A It's my recollection that that was covered
9 in part of the press coverage of his death.

10 Q Prior to the session of the Arkansas
11 legislature that began in January 1985, was it a
12 secret that the Arkansas State Police wished to
13 acquire a new radio system?

14 A Certainly not.

15 Q Was the fact that the Arkansas State Police
16 wished to acquire a new radio system well known in
17 the state of Arkansas prior to January of 1985?

18 A I don't know how well known it was, but
19 certainly the death of the trooper put a public focus
20 on what had already been a significant need for
21 improving, upgrading and modernizing the state
22 police's radio capabilities.

1 Q Did you have an impression that securities
2 firms in the state of Arkansas or outside the state
3 of Arkansas had become aware of that need and were --
4 let me stop there -- had become aware of that need?

5 A I think generally, yes, at some point.

6 Q Did you have an impression whether
7 securities firms inside or outside the state of
8 Arkansas were considering whether the need for a new
9 police radio system presented a business opportunity
10 for them?

11 A Certainly it was -- given the magnitude of
12 the costs involved, it was the type of project where
13 the state would not in all likelihood try and finance
14 it through general revenues in one bienniums or two
15 bienniums, which would indicate we would be looking
16 at some type of other financing alternatives.

17 Q What was the nature of the contest that the
18 Arkansas State Police Commission conducted among the
19 three or four firms or groups of firms that applied
20 for the underwriting business?

21 A I'm not familiar with the details of how
22 that process worked. My general impression is that

1 the state police commission put out a request for
2 proposals and that interested combinations of firms
3 proposals in response to the commission's RFP and
4 then the commission subsequently evaluated those
5 requests and made a decision as to which group it
6 would recommend for the contract, for the financing.

7 Q Was it your impression in 1985 that the
8 contest was a competitive process?

9 A That was my impression.

10 Q Was it your impression that the state
11 police commission would award the contract to
12 whichever firm or group of firms submitted the best
13 proposal?

14 A That was my impression and my understanding
15 of what the law required them to do.

16 Q Did anyone tell you in 1985 that the
17 contest was a sham?

18 A Not that I recall.

19 Q Did anyone tell you that the fix was in on
20 the contest and that Lasater & Company would be
21 awarded the contract, whatever proposal it submitted?

22 A I certainly have no recollection of that.

1 Q Did Betsey Wright tell you that?

2 A No.

3 Q Did Bob Nash tell you that?

4 A No.

5 Q Did anyone at the Arkansas State Police
6 Commission tell you that?

7 A I don't recall having discussed it with
8 anybody, the details of their process or how they
9 were going about it with anyone at the commission,
10 but I certainly don't recall anyone at the commission
11 telling me that it was a sham.

12 Q Did you ever hear anyone in the governor's
13 office say that Lasater & Company would receive the
14 contract from the state police commission regardless
15 of what kind of proposal they submitted?

16 A No.

17 Q Have you learned anything since 1985 that
18 has given you the impression that the Raney, Hutton
19 and Lasater firms were awarded the contract for any
20 reason other than that they submitted the proposal
21 that allowed the state of Arkansas to borrow money at
22 the cheapest cost?

1 A No.

2 Q During your time on Governor Clinton's
3 staff, did individuals or business firms in the
4 private sector ever make suggestions to the governor
5 or the governor's staff regarding legislation?

6 A Certainly.

7 Q Did individuals or business firms in the
8 private sector ever provide drafts of legislation
9 that they hoped to see enacted?

10 A Certainly. Not at all uncommon.

11 Q Did the state of Arkansas lease the new
12 police radio system rather than purchase it outright?

13 A I'm sorry. I couldn't hear all your
14 question.

15 Q Did the state of Arkansas lease the new
16 police radio system rather than purchase the system
17 outright?

18 A It's my recollection that it was a
19 lease/purchase type situation and that the state
20 would ultimately own the system.

21 Q Did the legislation that was enacted
22 authorizing the lease/purchase of the new radio

88

1 system --

2 A I'm sorry, I didn't hear all of that.

3 Q Strike that. I hadn't finished it.

4 What source did the legislation that was
5 enacted contemplate as a source of funds for lease
6 payments?

7 A The funding source were fees from various
8 types of motor vehicle operators' licenses, I
9 believe.

10 Q And did the legislation provide that
11 revenues received from motor vehicle licenses would
12 be deposited into a special fund?

13 A Yes. That was done so that the funds would
14 be "cash funds" rather than being general revenues of
15 the state. If they were deposited directly into the
16 treasury, they would become general revenues. So to
17 avoid their becoming ever characterized as general
18 revenues, they were deposited in a special fund.

19 Q Did the legislation stipulate how often
20 those motor vehicle fees were to be deposited into
21 the special fund?

22 A I don't recall. I assume it would probably

1 have been done on a monthly basis.

2 Q Had the state of Arkansas issued bonds
3 prior to this police radio bond underwriting in
4 1985? At any point prior to this, to the state
5 police radio underwriting, had the state of Arkansas
6 ever issued bonds?

7 A The state had issued housing bonds before
8 that through the housing agency and had done the
9 financing arrangements that were bonds or similar to
10 bonds using a cash funds type source of funding. As
11 I had indicated earlier, we had done something I
12 think were called certificates of -- I can't recall
13 the specific title, but referred to as something
14 other than bonds but were very similar to revenue
15 bonds that were used for construction of facilities
16 at the Department of Corrections, and I believe the
17 portion of the driver's license revenues had
18 previously been used to finance the construction of
19 the new state police headquarters facility.

20 Q Did the bonds issued by the state of
21 Arkansas and the various state agencies prior to the
22 bonds issued by the state police commission typically

90

1 provide that the bondholders would receive payments
2 of interest and principal twice a year?

3 A I don't recall.

4 Q Did the legislation that was enacted
5 authorizing the acquisition of the new radio system
6 stipulate that investors who purchased bonds issued
7 by the state police commission receive payments of
8 interest and principal more often than twice a year?

9 A I don't recall.

10 MR. FEUER: Those are all the questions I
11 have at this time.

12 MR. O'CALLAGHAN: And I have nothing
13 further either, Mr. Bratton. We thank you for your
14 time. And I don't know if you've been contacted
15 about hearings next week, but with regard to
16 scheduling that, I will be in contact with you.
17 Mr. Brenner will probably be doing that.

18 Do you have anything you want to clarify or
19 any questions you would like to ask us?

20 THE WITNESS: I don't think so.

21 MR. O'CALLAGHAN: Once again, thank you for
22 your time and have a good evening.

1 MR. FEUER: Thank you, Mr. Bratton.

2 THE WITNESS: Thank you.

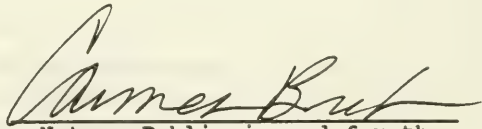
3 (Whereupon, at 4:36 p.m., the deposition
4 was concluded.)

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6 -----
7 SAM I. BRATTON, JR.
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

92

I, CARMEN BUNCH, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires MARCH 14, 1998

**DEPOSITION OF FRANK B. BURGE
IN RE: S. RES. 120**

TUESDAY, APRIL 23, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of FRANK B. BURGE, called for examination pursuant to notice of deposition, at 3:25 p.m. in Room 537 of the Dirksen Senate Office Building, before BRENDA M. SMONSKEY, a Notary Public within and for the District of Columbia, when were present:

DOUGLAS R. NAPPI, Esq.
Majority Counsel
LANCE COLE, Esq.
Minority Deputy Special Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

CONTENTS

WITNESS

EXAMINATION

Frank B. Burge by Mr. Nappi	5
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PROCEEDINGS

MR. NAPPI: This deposition is being conducted pursuant to Senate Resolution 120. This resolution establishes a Special Committee administered by the Banking Committee to conduct an investigation involving Whitewater Development Corporation and other related matters. Section 1(b) of Senate Resolution 120 authorizes investigation and public hearings into a number of matters, including the activities, investments and tax liability of Whitewater Development Corporation and as related to Whitewater Development Corporation of its officers, directors and shareholders. This will be the focus of today's deposition.

This deposition is being conducted in advance of public hearings. You may be called to testify at those public hearings. We will ask a series of questions. You will be testifying under oath. If you don't understand a question, let me know and I will rephrase. If you need a break, please let us know.

The stenographer will prepare a record of

4

questions and answers. Depositions will be treated as "committee confidential" until the commencement of the hearings. Prior to the hearings, you will receive a letter from the Committee telling you that you may come to the Senate to review the transcript of your deposition and make note of any corrections for transcription on an errata sheet.

If you are called to testify at a public hearing, you will be permitted to have a copy of your deposition transcript four days in advance of your testimony.

You may be represented by counsel. Objections to form of question will be noted for the record. Counsel may object on grounds of privilege or relevance.

The Committee Chairman may rule on objections where the witness refuses to answer a question.

Would you please swear in the witness. Whereupon,

FRANK B. BURGE

was called as a witness and, having first been duly

1 sworn, was examined and testified as follows:

2 EXAMINATION

3 BY MR. NAPPI:

4 Q Please state your full name for the
5 record.

6 A Frank Blaine Burge.

7 Q Since you have previously been deposed,
8 Mr. Burge, I'm going to dispense with the preliminary
9 questions on your background.

10 A Okay.

11 Q If I could turn your attention to the time
12 when you were employed at the Citizens Bank of
13 Flippin in Flippin, Arkansas, could you just state
14 for the record when you entered employment at
15 Citizens Bank.

16 A I believe it was either the -- it was May
17 of 1975.

18 Q And you were employed there until 1980?

19 A September of 1980, yes.

20 Q And in what capacity were you employed
21 there between August of 1978 and the end of your
22 employment?

6

1 A I was a senior vice president in August of
2 1978 and became president of the bank in March of
3 1979 and I was president until I left on September
4 30.

5 Q Were you a member of the board of
6 directors?

7 A I was.

8 Q As an executive VP and as president?

9 A Yes.

10 Q Were you the loan officer who initiated the
11 Whitewater loan to the Clintons and McDougals?

12 A I was one of the officers that processed
13 the loan. The loan was basically brought to the bank
14 by a realtor, Chris Wade, and the then-president and
15 bank executive, James Patterson, and I worked on
16 processing.

17 Q What did you do to process the loan? What
18 did that entail?

19 A Basically, we had a copy of the contract
20 for the sale of real estate, also known as "offer and
21 acceptance." Basically prepared documentation
22 pertaining to the loan, requested financial

1 statements. I did the appraisal on the property and
2 then presented it to the board of directors for
3 approval.

4 Q Do you recall the meeting of the board of
5 directors where this loan was considered?

6 A For the most part.

7 Q I'm not asking if you recall every detail.

8 A Okay.

9 Q Did you express concern to the board about
10 this loan with respect to a high concentration of
11 loans in that geographic area?

12 A Yes, I did.

13 Q It was your feeling that the bank had too
14 much of its portfolio in that area?

15 A Well, not too much of its existing
16 portfolio. It is just that the bank was entering
17 into a transaction in which a large section of land
18 was being acquired, and the majority of the acquirers
19 were coming to our bank for the financing and the
20 majority of the acquirers all had the same mind-set
21 of subdividing the property and marketing the
22 property.

1 We were a very, very small bank at that
2 time, total resources of the bank escape me, but I
3 would assume it was around 15 million or \$14
4 million. I felt that was totally too large a
5 concentration of credit in one given area, taking
6 into consideration the number of loans that were
7 being made for the same specific purpose.

8 Q So, this, I guess, dovetails with your
9 previous testimony. I believe you said that it was
10 your recollection that the Flippin Bank made loans to
11 seven or eight borrowers with regard to the 101
12 Development property?

13 A Yes.

14 Q With respect to these seven or eight loans,
15 were they considered as a group of loans at one board
16 meeting?

17 A They were all considered at the same time.

18 Q Was the business plan the same in all
19 instances? Were they all planning to subdivide and
20 sell by installment contract?

21 A Every one of them, yes.

22 Q What was the reaction to the board when you

1 raised concerns about loan concentration?

2 A I think the majority of the board members
3 understood the significance of concentration of
4 credit. At the same time, one of the board members
5 who was also then president of the bank had an active
6 involvement in the acquisition and resale of that
7 property. One of the board members also had an
8 active part in the listing and the remarketing of that
9 property.

10 There was a nine-member board, and that
11 left basically six members, and I think that -- not
12 including myself. So, basically the majority of the
13 board I think was concerned, and if I do remember
14 correctly, a couple of board members did react to
15 that point, but I think that the majority of the
16 borrowers who were being -- who were requesting loans
17 were all local people who had lived there for quite
18 some time. I think that the board felt that the
19 quality and the character of the borrowers basically
20 outweighed in great deal the purpose of the credit.

21 Q So, most of these loans were done as
22 character loans?

10

1 A No. The loans were all securitized by a
2 first lien position or first mortgage on the
3 property. What I was saying was one of the
4 overriding reasons of support for all the loans were
5 the majority of the people who were making the
6 acquisition were local people who had grown up and
7 lived in the Flippin area and also owned and operated
8 businesses.

9 The majority of the board felt comfortable
10 with the fact that because of those people's
11 character and their past performance and repayment
12 record at the bank, that in the event that the
13 marketing plan didn't proceed just as planned, that
14 these people had the other types of resources in
15 order to service the debt, if need be.

16 Q What about with respect to the loan to the
17 Clintons and McDougals? They were not locals, were
18 they?

19 A No, they were not.

20 Q The board approved the loan to the Clintons
21 and the McDougals. Was there any discussion of that
22 loan that you can recall?

1 A That loan had basically probably more
2 discussion than any loan, if my memory serves me
3 correctly.

4 Q Can you describe for us what the debate --
5 I shouldn't say debate -- what the discussion was?

6 A Primarily the Clintons and McDougals were
7 given more money for any parcel of property than
8 other acquirers were and that the feasibility of them
9 remarketing the property at a much higher price would
10 have probably had an impact on their ability to have
11 a reasonable sellout period.

12 Q I'm not sure I followed you there.

13 A Well, I think what I'm trying to say is
14 if -- can I use an example?

15 Q Sure.

16 A The example being that you own a piece of
17 property across the street from me and it is
18 identical size, square footage, land, and et cetera,
19 has all the amenities that go with it that mine does
20 and you are asking \$100,000 for yours and I'm asking
21 \$200,000 for mine, chances are you are going to sell
22 yours before mine.

1 Essentially what I remember, to the best of
2 my recollection that I basically had a concern with,
3 and I think if I remember correctly one or two other
4 directors had a concern with, was the fact that here
5 is a piece of property that may have -- it may be a
6 longer time to sell it out because people were going
7 to buy the interior property first before they paid
8 the price on the Clinton-McDougal property.

9 But again, we all came back to the
10 underlying source of character involved, and at that
11 time Mr. McDougal was a prominent person, had proven
12 his ability to borrow money and repay the debt in a
13 timely fashion. I think that more credence was given
14 to Mr. McDougal and his past performance and also his
15 success in remarketing property and more so, I think
16 that the board gave a large amount of credence to the
17 fact that the Governor-elect probably had it in his
18 power at any time to generate sufficient resources,
19 i.e., through moving the loan to another financial
20 institution or other sources at his disposal, that he
21 could probably discharge the loan or service it on an
22 adequate basis.

1 Q What other resources would you be alluding
2 to other than moving it to another bank?

3 A Well, credit only moves out of the bank
4 three ways, through the payments as pursuant to the
5 note, movement by another bank or you can charge it
6 off. There are other sources for a borrower. I'm
7 assuming that Mr. Clinton could have, one, sold out
8 his interest to another party and, two, maybe
9 borrowed money from a personal source. There are
10 people who would probably make personal loans to the
11 governor of any state given an opportunity.

12 We felt like, although Mr. Clinton at that
13 time was limited in personal resources, he did bring
14 with him an enormous amount of prestige for the
15 simple fact that he was going to be the chief
16 executive of the state of Arkansas.

17 Q And this was a factor that was considered
18 at this board meeting where the loan was approved?

19 A Yes.

20 Q Did you ever share an opinion with anyone
21 that you felt that supporters of the Governor-elect
22 would be willing to buy lots at inflated prices as a

1 means of providing income to the Governor or the
2 Governor-elect?

3 A Could you repeat that, Doug, one more
4 time?

5 Q Okay. Have you ever expressed your belief
6 that it was your opinion that Governor-elect
7 Clinton's supporters would be willing or be planning
8 to buy lots at inflated prices so as to provide a
9 source of income?

10 A Oh, I believed that, oh, yes. To be quite
11 candid with you, to this day, I can't believe it
12 didn't happen.

13 Q Was that a topic of discussion at the board
14 meeting?

15 A It may have been, may have been.

16 MR. COLE: But it didn't happen, correct,
17 Mr. Burge?

18 THE WITNESS: It did not happen. No. As a
19 matter of fact, I have no basis or foundation for
20 making the statement, but I believe if one were to go
21 back and look at all the transactions that occurred,
22 that probably nothing was tied politically to him at

1 all.

2 BY MR. NAPPI:

3 Q Do you recall why you believed that at the
4 time?

5 A I believe it was a practice in Arkansas
6 that had been dealt with on numerous occasions by
7 other public servants probably.

8 MR. COLE: Did anything like that ever
9 happen in New York, Doug?

10 MR. NAPPI: Not an elected official. I
11 can't speak to that.

12 BY MR. NAPPI:

13 Q Was that from personal experience that you
14 had seen or observed that happening in the past?

15 A Not from personal experience, not any bank
16 that I have been at or maybe as a regulator. When I
17 say "as a regulator," there may have been a couple of
18 situations. But to that point in my career, my brief
19 career, I have never seen an elected official default
20 on any type of loan at a commercial bank, never.

21 So that's another reason basically that
22 there may have been a reassuring value to that loan.

1 Q At the time of the board's consideration of
2 this loan, did you have a complete credit file? Did
3 you have all of the financial records of the
4 borrowers?

5 A No, not really. Let me qualify that by
6 saying this. In 1978, there were types of
7 documentation that were utilized then that -- that
8 were not utilized then, that are utilized today.
9 Atypically in that period of time, if my memory
10 serves me correctly, the documentation that was
11 required was basically a contract for sale or an
12 offer and acceptance and a financial statement by the
13 borrower. Atypically, what we did was we basically
14 made phone calls, maybe ran a credit bureau check on
15 them. That's all we did to underwrite the credit.
16 If the customer stated he made X number of dollars,
17 we took it at face value.

18 Very few times, to my recollection, did we
19 ever require financial statements that were supported
20 by tax returns and corporate tax returns. This was a
21 period of time that this was rural America, this was
22 a town of 500 people. We made a great deal of what

1 we called just old general facer loans. When people
2 walked in, we knew them by their face and knew their
3 character.

4 Q So, typically --

5 A And everyone knew who Bill Clinton was and
6 most everyone knew who James McDougal was.

7 Q So, at this point in time, it was typical
8 for a credit file to just contain the contract for
9 sale, a finance statement and something like a credit
10 check?

11 A Right. That was the credit that was
12 underwritten. Naturally, there was a note and a
13 mortgage, and we didn't have title insurance back in
14 that time. We issued what was called a "lawyer's
15 title opinion." You have an abstract and a lawyer's
16 title opinion. If there was any type of dwelling or
17 improvement on the policy, we usually had an
18 insurance policy showing us that. Other than that,
19 it was a very, very limited file.

20 Q Getting back to this particular loan and,
21 again, focusing you on the time when the board
22 approved it, did you have all of the records that at

18

1 that point in time sound banking practice would
2 mandate be in the credit file?

3 A At that period of time in banking in rural
4 America, we had basically every related document that
5 you would have to approve a loan.

6 Q Your recollection is you had a financial
7 statement for all of the borrowers at that point in
8 time?

9 A We most certainly did. I remember that
10 specifically. Again, to the best of my recollection,
11 I remember that.

12 Q You said that there were some concerns
13 about the pace at which sales of the Whitewater
14 property may be expected to proceed, that other
15 pieces of property might sell before the more
16 expensive Whitewater parcel.

17 A Correct.

18 Q Did you contemplate a short-term loan
19 here? Putting aside the fact that it was a
20 six-year -- or putting aside the fact that it was a
21 six-month notice demand note, did you foresee this
22 being a short-term credit facility or one that would

1 roll over on numerous occasions?

2 A Well, basically when you do -- our old rule
3 of thumb used to be in that period of time that when
4 you bought a piece of property and you subdivided it,
5 you should have basically a 2-to-1 ratio going into
6 it. Therefore, when you sold basically half, 50 to
7 60 percent of the lots, then the bank would basically
8 be paid in full. The last 40 percent would basically
9 be the capital gain for the investor or borrower.
10 That was basically the rule of thumb that we
11 utilized.

12 On other loans we had done like that, it
13 had been our experience that basically they were two-
14 and three-year payouts, because a lot of the sales
15 came on what they referred to commonly as contract
16 for deed, land sale contracts, and they supported the
17 debt. They were usually placed on 10-year AMs. It
18 would go anywhere from 10 to 20 years.

19 Q Was it the bank's expectation that interest
20 payments or payment proceeds from sales and interest
21 payments on these contracts for deeds would provide
22 the sole income stream to pay off the loan?

20

1 A Doug, you broke up just for a second
2 there. Can you repeat that?

3 Q Sure. Was it the bank's expectation going
4 into this loan that the sales by contract of deeds
5 would provide a sufficient income stream to pay off
6 the bank?

7 A Well, it almost had to be. If we thought
8 they were going to be subdividing the property and
9 settle it for just a little bit over the acquisition
10 price, there wouldn't have been enough cash in there
11 to discharge the debt. So, yes, we anticipated they
12 would have ample cash sales and ample contract and
13 deed sales to discharge the debt in a timely fashion.

14 Q Now, you sold a half interest participation
15 to the Union National Bank; is that correct?

16 A That is correct.

17 Q What was the background on that
18 relationship? Did you have an extensive
19 correspondent relationship with Union?

20 A Union National Bank was our primary
21 correspondent. Small, rural independent community
22 banks during that time period basically didn't have a

1 relationship with the Fed Reserve. Union National
2 Bank was our clearing agent of what we called our Fed
3 Reserve cash letter.

4 We were basically a young bank,
5 unsophisticated bank, technologically speaking, and
6 we sent our proof letter to them and then they
7 processed it for us and sent it on to the Federal
8 Reserve system.

9 The bank, the correspondent bank
10 department, the correspondent division of that bank
11 supported our bank in many overlins with different
12 customers. From time to time, when our directors
13 would want to borrow money and they were overlined,
14 they would lend money to our directors.

15 Q Do you know how the relationship developed
16 between Union National Bank and Citizens Bank?

17 A Oh, yes, I know exactly how it developed.

18 MR. COLE: Mr. Burge, I have to interrupt
19 you for a minute and ask Mr. Nappi if he can
20 articulate for the record how this aspect of his
21 questions is within the scope of Senate Resolution
22 120.

1 MR. NAPPI: Clearly, it goes -- these were
2 the two banks that financed the Whitewater loan.
3 Citizens Bank originated the loan, sold a one-half
4 participation to Union National Bank. We have a
5 record that demonstrates they had a significant
6 correspondent banking relationship.

7 The origin of that relationship is just --

8 MR. COLE: I think obviously any questions
9 about the treatment of the Whitewater loan or the
10 participation by Union Bank are relevant to our line
11 of inquiry, but the general business relationship
12 between Citizens Bank and particularly the origins of
13 their correspondent banking relationship I think are
14 completely outside the scope of the Resolution.

15 If you can answer briefly --

16 MR. NAPPI: It is a legitimate foundation
17 question.

18 MR. COLE: If you can answer briefly,
19 Mr. Burge, go ahead, but I may interrupt you at some
20 point.

21 BY MR. NAPPI:

22 Q I would ask you to answer the question. It

1 is a foundation question.

2 MR. COLE: The way we have been conducting
3 these depositions, Mr. Nappi, if I instruct the
4 witness not to answer, you have to go and get a
5 ruling from the Chairman. I may or may not do that.
6 That's how we have been conducting them.

7 So, go ahead, Mr. Burge.

8 THE WITNESS: The First National Bank in
9 Little Rock, Arkansas was the original bank that
10 helped Citizens Bank & Trust become organized, they
11 were our primary correspondent servicer; Mr. James
12 Patterson had a falling-out with the top executives
13 of First National Bank in Little Rock, and he had
14 known of an individual there at Union National Bank
15 named Howard Qualls, and he requested Mr. Qualls to
16 come up and he wanted to move all the business from
17 Citizens Bank over to Union National Bank.

18 MR. COLE: So the fact of that movement had
19 nothing to do with the 101 River Development
20 Corporation or the Whitewater sale?

21 THE WITNESS: None at all.

22 MR. COLE: How many years prior to the

24

1 Whitewater transaction did that occur?

2 THE WITNESS: Probably -- maybe a year,
3 maybe a year.

4 BY MR. NAPPI:

5 Q Do you know how Mr. Patterson knew
6 Mr. Qualls?

7 MR. COLE: I will ask you not to answer
8 that question, Mr. Burge. I think we have gone well
9 outside the scope of Resolution 120. We can either
10 go on to other topics or get a ruling from the
11 Chairman. I'm pretty comfortable that this is
12 completely irrelevant and completely outside the
13 scope of Resolution 120. It is clear that one thing
14 our resolution doesn't do is authorize a general
15 examination of banking practices in Arkansas or every
16 transaction that Citizens Bank of Flippin ever did.

17 BY MR. NAPPI:

18 Q What was Union National Bank's
19 responsibility as a participant in this loan?

20 A Union National Bank -- basically when you
21 buy a participation in banking, when you buy a
22 participation in a loan, you buy a certain percentile

1 of the loan, whatever your participation is. In the
2 situation of the loan on the Whitewater and the other
3 loans we sold, we basically sold anywhere from a 50
4 percent participation in that loan to basically,
5 maybe a 20 or 30 percent participation in the loan.
6 I can't remember exactly what the breakdown was.

7 But they assumed all the liability and all
8 the exposure that we had in our portion of the loan,
9 that in the event of default and there was a loss,
10 then they suffered that loss on a pro rata basis of
11 whatever the participation was. In the case of
12 Whitewater, it was 50/50. If it would have been a
13 loss of \$1000, they would have accepted a loss of 500
14 and we would have accepted a loss of 500. All
15 related expenses of foreclosure would be forwarded on
16 a 50/50 basis.

17 Q Who was the bank officer at Union National
18 Bank who you dealt with on this loan?

19 A There was a gentleman by the name of Morris
20 Jackson. He was an AVP, if I'm not mistaken. Most
21 of the information pertaining to the transaction was
22 channeled through Mr. Jackson.

1 Q Did you ever deal with Don Denton?

2 A Not to my knowledge.

3 Q Barbara Spears?

4 A Those are names that I could have come in
5 contact with, but to be quite candid with you, the
6 person who I dealt with on a majority basis was
7 Morris Jackson, and secondly it was probably Howard
8 Qualls. Those are the people I dealt with.

9 There may have been subordinates involved
10 in that, but to the best of my knowledge, I don't
11 remember speaking to them.

12 Q And you were the point person at the
13 Citizens Bank of Flippin with respect to this
14 correspondent arrangement on the Whitewater loan or
15 the participation?

16 A For the participation.

17 Q Yes. So you were the primary person at
18 Citizens Bank?

19 A Yes. I will qualify that for a second, if
20 I may.

21 Q Sure.

22 A When the loans were basically approved and

1 we knew we had the participation working interest, we
2 basically went in and drafted all documents and
3 participation agreements and submitted them all, and
4 between Mr. Jackson and myself, we handled all the
5 transactions.

6 Q All right. What was Mr. Jackson's title?
7 He was an assistant vice president in the
8 correspondent banking department?

9 A That's correct.

10 Q What about Mr. Qualls, what position did he
11 hold at Union National Bank?

12 A If my memory serves me correctly, he was
13 senior vice president of correspondent banking, if my
14 memory serves me properly.

15 Q Was Mr. Patterson involved in any capacity
16 in the establishment of the participation?

17 A Oh, yes, definitely. Mr. Patterson, if my
18 memory serves me correctly, Mr. Patterson's group,
19 the 101 River Development Corporation borrowed money
20 directly from Union National Bank also. I think they
21 also had a participation on their loan. If I'm not
22 mistaken, if I remember correctly, Mr. Patterson's

1 loan was made there at the bank, also. But they also
2 borrowed money directly from Union National, if my
3 memory serves me correctly on that.

4 Q With respect to the participation on the
5 Whitewater loan, there was no provision made for a
6 certain amount of principal being paid to Union
7 National Bank every six months?

8 A No, there was no provision. There was not
9 a provision for any repayment at all. That loan was
10 basically made.

11 Q Later on there was, as you testified?

12 A Later on, yes. As a matter of fact, I'm
13 the one who set aside the repayment program.

14 Q If I could direct your attention or ask you
15 to focus on the closing of the Whitewater loan for a
16 moment, I want to clarify one thing.

17 Is it your recollection that the Clintons
18 attended this closing?

19 A To the best of my recollection, everybody
20 was there.

21 Q So, "everybody" would be Mr. and
22 Mrs. Clinton and Mr. and Mrs. McDougal?

1 A To the best of my recollection, they were
2 all there.

3 Q Do you recall any discussions regarding
4 their business plan at the closing or prior to the
5 closing?

6 A The business plan for that loan was
7 basically set up by Mr. Wade, Chris Wade. He was the
8 realtor who subdivided the property for Mr. McDougal
9 and he was the one who was going to market it for
10 him.

11 Q Did you ever have any discussions with
12 Mr. McDougal about the business plan at any time up
13 to the closing on the loan?

14 A No, not really.

15 Q Did you ever have any discussions with the
16 Clintons about the business plan prior to the
17 closing?

18 A No, I didn't.

19 Q Did you personally monitor lot sales at
20 Whitewater?

21 A No, I did not monitor any. To the best of
22 my memory, during the tenure, the time of the latter

1 part of '78 until I left the bank in September of
2 1980, I don't think there was one sale of any lot,
3 period.

4 Q During this time, do you recall any pay
5 downs on principal or interest?

6 A Oh, yes. I recall the interest payments.
7 I do recall, after I had sent a letter to the
8 Clintons and McDougals requesting a 10 percent
9 amortization, that they made the payment. I don't
10 think they made the full payment until sometime after
11 that.

12 Q That would be your August 6th letter, I
13 believe --

14 A Yes.

15 Q -- from 1979, was it?

16 A '79.

17 Q With respect to that letter, did you send a
18 copy, one copy to the McDougals and one copy to the
19 Clintons?

20 A I think I directed that letter just to
21 Mr. McDougal. If I remember correctly, he requested
22 all the correspondence to go to him.

1 MR. COLE: When did that occur, Mr. Burge?

2 THE WITNESS: I think there had been an
3 understanding for quite some time on that, Mr. Cole.
4 It is just something that Mr. McDougal basically
5 handled the business.

6 MR. COLE: That's a point of some
7 interest. If you can recall any more specifics about
8 when that practice began and whether you had
9 instructions from Mr. McDougal to that effect, that
10 would be helpful, anything you can recall about
11 that.

12 THE WITNESS: Mr. Cole, I couldn't answer
13 with any firm date, but it was always my contention
14 and understanding that Mr. McDougal was handling that
15 transaction. He was the, if you will, the point
16 person or the conduit that all information and
17 correspondence was channeled through.

18 MR. COLE: That was during your entire time
19 at the bank there?

20 THE WITNESS: That's exactly right.

21 BY MR. NAPPI:

22 Q So, is it your testimony that other than at

1 the closing, you had no contacts with either
2 Mr. Clinton or Mrs. Clinton?

3 A Prior to the closing?

4 Q After the closing.

5 A After the closing, the only contact I had
6 with the Clintons was maybe on some minute issue.
7 But the biggest issue was that there was -- right
8 after Mr. Clinton was elected governor or sometime I
9 think it was a little bit after that, basically The
10 Arkansas Democrat had done an expose on this
11 investment in northern Arkansas.

12 Q You testified as to this a couple months
13 ago. I apologize.

14 A Okay.

15 MR. COLE: That was the time when Governor
16 Clinton called you and told you he didn't have
17 anything to hide and you should tell the papers
18 whatever they wanted to know?

19 THE WITNESS: That's correct.

20 BY MR. NAPPI:

21 Q Other than that, you had no other contacts
22 with Mr. Clinton?

1 A I may have seen him at a meeting or
2 something.

3 Q But no contact with respect to this
4 investment?

5 A Exactly.

6 Q What about prior to the closing? Did you
7 have any contact with Mr. Clinton?

8 A Not to my knowledge. I think all financial
9 information was submitted by Mr. McDougal.

10 Q And what about with respect to
11 Mrs. Clinton? At any time during your tenure did
12 you -- putting aside the closing --

13 A Never to my knowledge.

14 Q And no correspondence received from either
15 of the Clintons?

16 A To the best of my knowledge, I don't
17 remember any private correspondence coming from
18 them.

19 Q What do you mean by "private
20 correspondence"?

21 A Where they addressed a letter directly to
22 me.

1 Q Did they ever contact anyone at the bank,
2 either in writing or orally, to the best of your
3 knowledge?

4 A Not to my knowledge.

5 Q Did you ever face any delays with respect
6 to the delivery of financial statements?

7 A You know, I just can't specifically tell
8 you any particular instance. I just can't remember.

9 MR. COLE: Off the record for one second.
10 (Discussion off the record.)

11 MR. NAPPI: We are back on the record.

12 BY MR. NAPPI:

13 Q Would it have been your policy to require
14 personal financial statements on a yearly basis?

15 A It was the bank's policy. We had a very,
16 very minimal loan policy. But one of the things that
17 we did have is we required a financial statement.

18 Q And you required that on an annual basis?

19 A The best of my memory, we required it on an
20 annual basis. We would ask for it.

21 Q And those financial statements would be
22 placed in the credit file?

1 A Uh-huh, yes.

2 Q And maintained in the credit file?

3 A Pardon?

4 Q They would be placed and maintained in the
5 credit file?

6 A Yes. Again, we had very, very minimal
7 credit files. They were just basically, if my memory
8 serves me properly, we just had manila folders. They
9 weren't like the elaborate credit file systems of
10 today.

11 Q Did you ever experience any delays, and
12 this is again with respect to the Whitewater loan,
13 any delays in payments of interest?

14 A You know, there may have been, but I can't
15 specifically remember exactly. It appears to me
16 that -- I don't remember ever having a serious
17 delinquency on that loan.

18 Q When you testified in February, you
19 mentioned a contact with Mr. McDougal in which you
20 asked him to make some payments and he seemed
21 concerned about having to make those payments, and
22 you offered your opinion that he did not seem to

36

1 expect that he had to make payments, would have to
2 make payments.

3 A Could you repeat that?

4 Q Yes. Again, I'm not reading from the
5 transcript, but during your February deposition, you
6 discussed an instance where you approached
7 Mr. McDougal for some payments and he seemed
8 dismayed, and you were of the opinion that he did not
9 expect to have to make such payments. Do you recall
10 this?

11 A Yes, yes.

12 Q You further testified that you may have had
13 to contact Mr. Clinton because of Mr. McDougal's
14 response.

15 A Again, like I said, I can tell you today
16 that I may have contacted at that time Governor
17 Clinton, but I don't specifically remember the times
18 I did.

19 Q I understand it was a long time ago and you
20 can only recall what you recall.

21 Were you aware of a sale of a parcel in
22 Whitewater to Chris Wade in the fall of 1980?

- 1 A The fall of 1980?
- 2 Q Yes, September or October.
- 3 A If it was after September 30, 1980, then I
- 4 was gone from the bank.
- 5 Q So, you do not recall that?
- 6 A No, I don't recall that at all.
- 7 Q Was it bank policy to require an appraisal
- 8 of the property every time a loan renewal came up?
- 9 A No, it was not a policy.
- 10 Q Do you know whether it was done with
- 11 respect to the Whitewater parcel?
- 12 A We did not do an appraisal every time the
- 13 loan came up, or review either.
- 14 Q Were there any other examinations of the
- 15 Flippin Bank by regulators during your tenure?
- 16 A Yes.
- 17 Q Not during your complete tenure. Why don't
- 18 we focus on the years '78 through '80.
- 19 A Yes, we had an examination every year.
- 20 Q By whom, the Arkansas State Banking
- 21 Department?
- 22 A The Arkansas State Banking Department.

- 1 During that period of time it was a state law that
- 2 every state bank in Arkansas be examined once a
- 3 year.
- 4 Q Did the regulators ever ask any questions
- 5 with respect to the Whitewater loan?
- 6 A Again, to the best of my recollection, not
- 7 really.
- 8 Q Mr. Burge, I'm just going through my notes
- 9 making sure I have covered everything.
- 10 A That's okay.
- 11 (Pause.)
- 12 Q Mr. Burge, if I could direct your attention
- 13 to your February testimony. At one point near the
- 14 end of that deposition, there was talk about the rise
- 15 in interest rates that was allowed by the change in
- 16 federal law in 1980 and your concern regarding the
- 17 loan and the need to start amortizing the principal.
- 18 A I'm sorry?
- 19 Q I was just trying to give you some
- 20 background. Your decision about requiring 10 percent
- 21 pay-down of the principal every year.
- 22 A Yes.

1 Q And the fact that basically the investment
2 was not paying for itself. You testified that it was
3 a bad underwriting decision, the loan was made
4 because right down there in that packet of ranchettes
5 was this 300 acres and everybody else was trying to
6 do exactly what the Clintons were.

7 What did you mean when you said "exactly
8 what the Clintons were"?

9 A Basically what I testified earlier, that
10 they were all trying to subdivide the property and
11 resell it, and you had a tremendous influx of
12 inventory, and it was kind of like buying apples in a
13 bushel. They all look the same after a while. If
14 you are going to buy apples, you may as well buy the
15 least expensive.

16 Q In any of these other 101 Development loans
17 or any of these loans made to by 101 Development
18 property, did you experience the same kind of
19 problems with payment of principal or delays in
20 payment of interest?

21 A To the best of my recollection, I think
22 most of the people down there paid their interest

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1 payments in a timely fashion. I think that some of
2 the others maybe had difficulty at times when making
3 principal reductions.

4 Q But loan performance was better than the
5 loan performance on Whitewater?

6 A I wouldn't say it was better. I think it
7 was difficult as well for those other people. During
8 that period of time of those first few years,
9 interest rates went to 21 percent and it was a
10 struggle for all of them.

11 Q So you are not able to quantify whether
12 loan performance by and large was better?

13 A I couldn't tell you if it was better or
14 worse. I can tell you that my experience up to the
15 period of time is that everyone made their interest
16 payment. Okay. Some made the principal reduction,
17 some didn't. I do believe that they just couldn't
18 make the principal reduction.

19 Q When you became president of the Flippin
20 Bank, is it fair to say that you were concerned about
21 the bank's due diligence with respect to lending, or
22 stated more bluntly, did you feel the bank had some

1 sloppy lending practices?

2 A Oh, well, yes. That was because I was
3 under the watch of Mr. James Patterson.
4 Mr. Patterson, I always felt was one of the more
5 looser lenders that I have ever seen.

6 Q Is that why you imposed discipline like the
7 10 percent amortization?

8 A Yes. That's exactly why.

9 MR. COLE: But, and I think you testified
10 to this previously, Mr. Burge, and I'm really trying
11 to avoid going over and over the same things again,
12 but I believe your testimony has been that there was
13 nothing special about the Whitewater loan, as far as
14 its terms or its underwriting, in comparison to the
15 other loans that the bank made.

16 THE WITNESS: That's exactly right.

17 MR. COLE: Mr. Nappi asked you a question
18 that started with a very general proposition about
19 the lending practices and then he tied it more
20 specifically to the Whitewater loan. I want to be
21 clear that there wasn't anything unusual about the
22 handling of the Whitewater loan in comparison to the

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1 other loans the bank was making at the time.

2 THE WITNESS: That is correct. Everybody
3 was treated exactly equally on that.

4 MR. COLE: Thank you.

5 BY MR. NAPPI:

6 Q Again, going back to your February
7 deposition, just to clarify one point. In discussing
8 the analysis of the ability to pay, I think you
9 testified, and again I'm generalizing, that Jim
10 McDougal was seen as the deep pocket and that
11 Governor-elect Clinton only had a salary of \$10,000.
12 It has since come to light that Governor Clinton or
13 Governor-elect Clinton, while by no means a rich man,
14 was making more than \$10,000 in 1978.

15 In light of that, would that affect your
16 previous testimony if you knew that Governor Clinton
17 was making in the range of 20- to \$30,000?

18 A Probably in all -- this is all
19 supposition. Doug, to be quite candid with you, I
20 don't think Bill Clinton added one real big impact
21 point in the approval of that loan. The approval of
22 that loan was made basically that McDougal -- if the

1 loan had problems, McDougal had ample resources, cash
2 flow-wise, to service that debt for any purpose, that
3 Clinton added to the loan the basic character, that I
4 just didn't believe and most everybody else did, that
5 a sitting governor would let a loan go in default and
6 be foreclosed on.

7 Q Fair enough. One final point.

8 At several points in your testimony, you
9 used the term "atypical."

10 A I'm sorry. That was incorrect grammar. I
11 apologize for it.

12 Q You used "atypical" and "typical"
13 interchangeably; is that correct?

14 A Yes.

15 Q Someone asked about that and we wanted to
16 clarify it for the record. Believe me, far be it
17 from me to offer any kind of advice on points of
18 grammar. Maybe Mr. Cole.

19 MR. COLE: I don't know anyone from
20 Arkansas who makes it a habit of offering advice on
21 grammar.

22 MR. NAPPI: New Yorkers might offer the

1 advice but they would probably be wrong. I would
2 defer.

3 I am done. I don't know if Mr. Cole has
4 any follow-up questions.

5 MR. COLE: I think we have covered
6 everything, Mr. Burge.

7 MR. NAPPI: Off the record.

8 (Discussion off the record.)

9 (Whereupon, at 3:20 p.m., the deposition
10 was concluded.)

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FRANK B. BURGE

I, BRENDA M. SMONSKEY, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Brenda Smonskey
Notary Public in and for the
District of Columbia

My Commission Expires SEPTEMBER 14, 1996

**DEPOSITION OF DAVID A. COLLINS
IN RE: S. RES. 120**

TUESDAY, APRIL 23, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of DAVID A. COLLINS, called for examination pursuant to notice of deposition, at 6:05 p.m. in Room 640-A of the Hart Senate Office Building, before BRENDA M. SMONSKEY, a Notary Public within and for the District of Columbia, when were present:

MICHAEL P. O'CALLAGHAN, Esq.

Majority Associate Special Counsel

MITCHELL FEUER, Esq.

Minority Counsel

U.S. Senate

Committee on Banking, Housing, and Urban Affairs

534 Dirksen Building

Washington, DC 20510

On behalf of the Committee.

CONTENTS

WITNESS**EXAMINATION**

David A. Collins	
by Mr. O'Callaghan	5
by Mr. Feuer	70
by Mr. O'Callaghan	76

P R O C E E D I N G S

MR. O'CALLAGHAN: Good evening, Mr. Collins. My name is Michael O'Callaghan. I am an associate special counsel with the Senate Special Committee, and with me also is Mitchell Feuer, who is a counsel with the Banking Committee.

We will be conducting the deposition this evening. This is a telephone deposition conducted pursuant to Senate Resolution 120. The Resolution establishes a Special Committee administered by the Banking Committee to conduct an investigation involving Whitewater Development Corporation, Madison Guaranty Savings & Loan Association, Capital Management Services, Inc., the Arkansas Development Finance Authority, and other related matters.

This deposition is in advance of public hearings which are going to occur next week, and there is a possibility that you may be called to testify at those hearings.

We are going to ask you a series of questions this evening. We will ask you to testify under oath. Do you consent to being sworn over the

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telephone, Mr. Collins?

THE WITNESS: Yes, sir, I do.

MR. O'CALLAGHAN: If you don't understand a question at any time, please let me or Mr. Feuer know and we will be happy to rephrase the question for you. If you need a break, also let us know. We will be happy to accommodate you.

The stenographer is preparing a record of questions and answers. The deposition will be treated as Committee Confidential until the commencement of the hearings.

Prior to the hearings, if you are called to testify, you will be given a chance to review your deposition and make note of any corrections for transcription on an errata sheet. At any time you can also request a copy of the deposition and make changes on an errata sheet for the public record.

THE WITNESS: Okay.

MR. O'CALLAGHAN: Do you understand that you may be represented by counsel during this deposition?

THE WITNESS: Yes. I don't need counsel.

1 It is my belief I don't need counsel.

2 MR. O'CALLAGHAN: You are not represented
3 by counsel this evening?

4 THE WITNESS: That's correct.

5 MR. O'CALLAGHAN: Objections may be made to
6 the form of the questions. They will be noted for
7 the record. You or counsel may object on grounds of
8 privilege or relevance, and the Committee Chairman
9 will rule on objections where the witness refuses to
10 answer a question.

11 Those are the basic ground rules, okay,
12 Mr. Collins?

13 THE WITNESS: Okay.

14 MR. O'CALLAGHAN: Please swear in the
15 witness.

16 Whereupon,

17 DAVID A. COLLINS
18 was called as a witness and, having first been duly
19 sworn, was examined and testified as follows:

20 EXAMINATION

21 BY MR. O'CALLAGHAN:

22 Q State your full name for the record.

1 A David Arthur Collins.

2 Q Did you speak with anyone prior to this
3 deposition about the deposition?

4 A No. Dan Lasater called me yesterday and
5 had heard -- I'm not quite sure how, I think through
6 George Locke -- had heard that I been -- that Mark
7 Brenner, I think, called me. We did not discuss the
8 matter. He just said he heard and I said that's
9 correct. No discussion was made with regards to
10 anything to do with the thing. I said I received a
11 call from this Mark Brenner and was going to give a
12 deposition.

13 Q Did Mr. Lasater discuss the contents of any
14 depositions he may have been a part of?

15 A We discussed nothing in regards to any
16 depositions or in regards to any matters.

17 Q What was the purpose of his call?

18 A He just had heard that I had been -- that
19 this Mark Brenner had called me and that I was going
20 to have to give a deposition. He said I heard you
21 got called, and I said that's correct, and he said
22 okay. There was no discussion in regards to what it

1 pertained to or anything else.

2 He just heard that I had gotten -- I think
3 through George Locke -- had heard that I had
4 gotten -- that Mark Brenner had called. We didn't
5 discuss anything about the depositions or anything
6 about anything.

7 Q How long was the conversation?

8 A Five minutes, five, 10 minutes.

9 Q Did you speak with anyone else about the
10 deposition tonight? Did you speak with Mr. Locke?

11 A I gave Mark Brenner the number for George
12 Locke. I just spoke with George about it and said
13 hey, we are getting this deal with Mark Brenner.
14 That is the only person I believe. I don't think I
15 mentioned it to my secretary. I don't know whether I
16 did or not.

17 Q Did you have any conversations with anyone
18 about the anticipated subject of the deposition?

19 A Sir, I have not.

20 Q Did you do anything to prepare for the
21 deposition, review any documents or talk to anybody?

22 A No, sir, I have not.

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3 Q Could you give me a brief description of
4 your educational background.

5 A I graduated from high school, worked my way
6 through college.

7 Q Where did you go to college?

8 A Little Rock University, it was called at
9 that time --

10 Q What --

11 A -- two hours of graduating. I was going to
12 be a lawyer, but I decided against that. But I went
13 to school out there, worked my way through college
14 for a six-year period of time, working part-time jobs
15 and working, like two hours from graduating.

16 Q Any other educational experiences other
17 than that?

18 A No.

19 Q Do you hold any professional licenses?

20 A No.

21 Q What is your present business address?

22 A 3905 West 81st Street, Little Rock,

1 Arkansas 72209.

2 Q Are you currently employed?

3 A Yes, sir.

4 Q What is your present position?

5 A President of DAC Technologies.

6 Q Could you spell that, please.

7 A D-A-C Technologies.

8 Q What kind of business is that?

9 A We manufacture alarms, personal safety
10 devices and window alarms and door alarms, the little
11 body alarm, so forth. Overseas we manufacture. This
12 is a distribution center here.

13 Q During the period 1978 through 1986, could
14 you give me a brief description of your employment
15 history.

16 A Yes. I was at -- is it '78?

17 Q Yes, sir.

18 A I believe I came here, again it is 15, 18
19 years ago. But I came here from Memphis, Tennessee
20 in the latter part of '79, I believe. Before that, I
21 was employed as a security salesman in Memphis. I
22 came over here and went with a firm called T.J. Raney

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1 & Sons. In approximately '79 -- I'm not quite sure
2 of all the dates -- the latter part of '79 and 1980
3 opened up a company called First Bankers Corp.

4 Q What kind of company was that?

5 A It was a broker-dealer.

6 Q Did you have any partners?

7 A Yes.

8 Q Who?

9 A George Locke and Dan Lasater.

10 Q How did that partnership come about?

11 A I knew George Locke, gosh, since 1970-ish,
12 and he had become a friend of Dan Lasater's. I had
13 not really met Dan until 1979 or '80, until I came
14 back here. George was a friend of his. I got to
15 know him through George Locke.

16 We decided to open up an investment banking
17 firm, one-third, one-third, one-third; as I say,
18 either the latter part of '79 or 1980. It was, at
19 first, called First Bankers Corp.

20 Q Did you all invest equally at that point?

21 A Yes.

22 Q What was the initial amount of the

1 investment you each put in?

2 A I want to say it was 75,000 a piece. I'm
3 not exactly sure, but I think that was the amount.

4 Q Did Mr. Locke have any experience in the
5 securities business?

6 A No --

7 Q What was his --

8 A -- he was just a friend.

9 Q What was his profession?

10 A He was a state senator at that time and a
11 businessman.

12 Q How about Mr. Lasater, did he have any
13 experience in the securities industry?

14 A No, he was a businessman also.

15 Q How did you-all come to approach
16 Mr. Lasater to be a partner in the company?

17 A It was through George. I got to know Dan
18 through George Locke, and then I went and had a
19 meeting with George Locke and Dan, saying that I
20 wanted to open up a securities firm.

21 Q How did Mr. Locke know Mr. Lasater?

22 A I'm not sure. He met him back in the early

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1 '70s. I believe -- it was through the horse racing
2 business, I think. I think that's what happened.

3 Q Was Mr. Locke in the horse racing business?

4 A I think George owned some horses, yes.

5 Q Did there come a time when First Bankers
6 Corp. changed its name?

7 A Yes. I'm not sure of the exact date. I
8 want to say '81. Again, I'm not exactly sure. It
9 was changed to Collins, Locke & Lasater. I believe
10 that's what happened.

11 I think it was just a name change.

12 Q Was there any significant reason why the
13 name was changed? Do you recall why the name was
14 changed?

15 A No, I honestly don't, except maybe ego. I
16 can't really remember. I wish it had never been, but
17 it did.

18 Q You think that was around 1980, 1981?

19 A Yes, sometime right in there.

20 Q The first year of operation?

21 A Right.

22 Q When you first set up the business, how was

1 it set up? What type of specific securities work
2 were you involved with?

3 A It was mostly fixed income. We didn't do
4 equities. We did bonds, municipal bonds primarily.
5 It was a very small firm with like -- in fact, we had
6 to recapitalize the firm, put in a little bit more
7 money. But it was like three or four employees at
8 first.

9 Q So you were basically just selling bonds?

10 A Uh-huh, yes, as a broker-dealer.

11 Q When did you have to recapitalize for the
12 first time?

13 A I don't know. I think it was another
14 37,500 a piece because we lost money the first year.

15 Q The first year of operation?

16 A Yes, because that's when the interest rates
17 went up to 20 percent, right during that period of
18 time. You bought a bond, it was worth less the next
19 day.

20 Q You had a rough start?

21 A Yes, terrible. The only time interest
22 rates ever went to 20 percent.

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1 Q You each put in an equal amount, you
2 remember \$37,500?

3 A I'm not sure the exact figure. I think it
4 was around that figure of additional money put in.

5 Q How did the business do the second year? I
6 guess that would be 1982; right?

7 A When interest rates started dropping,
8 whenever that was, it was a year or two before the
9 company started making any money. I can't remember
10 the exact time. The first year it lost money and we
11 had to put some more money in it. It was either the
12 second -- '81-ish, '81-1/2-ish, a year or two after
13 it initially opened up before it started being
14 profitable.

15 Q Did there come a time when you started to
16 hire more employees for the company?

17 A Yes. It went from two or three people to,
18 gosh, 50, 60 people, salesmen and employees.

19 Q Is that sales and administrative staff?

20 A Uh-huh, uh-huh, yes.

21 Q Who ran the day-to-day operations of the
22 company in the first two years?

1 A Basically I did.

2 Q How long were you in that role?

3 A Well, I was removed, I believe, in July of
4 1983. I came back in from an operation and was asked
5 to leave in July of 1983.

6 Q How did that come about?

7 A Dan asked me to leave.

8 Q How was the company doing at that point?

9 A We had made some money, pretty good money,
10 and then I think we started to lose a little money
11 there towards the end. But we had basically made
12 money. And then the last two or three months I was
13 there, we lost a little money.

14 Q Before you left, had the company hired
15 anyone to engage in getting underwriting business for
16 the company?

17 A Uh-huh, yes. I believe I was the one that
18 basically hired Michael Drake from Memphis. I can't
19 remember the firm -- I want to say Morgan Keegan or
20 something -- that he was with. I can't remember. We
21 hired a guy named Michael Drake, just to try to start
22 underwriting bonds and stuff, which was standard in

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1 our industry, to try to become underwriters.

2 Q Did you have to reach a certain size before
3 the company could start doing that?

4 A You couldn't start doing it with two or
5 three employees and just barely hanging on. After
6 the company became profitable, no, I don't know of
7 any particular requirements sizewise, but we had more
8 capital at that time and you couldn't do it with two
9 or three people. We were just trying to survive.

10 After it became successful -- and the
11 company did become successful in '82, I remember
12 that, in '82 it became very successful -- we decided
13 to try to get into underwriting, which is standard in
14 our business. Every legitimate investment banker
15 tries to underwrite bonds.

16 We got into it and I hired this Michael
17 Drake from Memphis.

18 Q Do you recall whose idea it was to get into
19 underwriting? Was it you, Mr. Locke, or Mr. Lasater?

20 A I don't know. Mine and anybody's, I
21 guess. Probably more -- I was the one that was at
22 that time, really, up until '82. Dan and I didn't

1 get along after that. I basically ran the company
2 through '82 and was trying to make the company grow
3 into a big company. I guess I would be the one
4 wanting to make the company go and get into
5 underwritings.

6 Q Were you ever informed by Mr. Locke or
7 Mr. Lasater that the company would have access to
8 underwriting of state issues?

9 A No, sir, no.

10 Q Before hiring Mr. Drake to do underwriting,
11 did anyone at Collins, Locke & Lasater have any
12 conversations with anyone associated with the
13 governor's office about doing state bond business?

14 A I'm sorry?

15 Q Before you hired Mr. Drake, did anyone from
16 Collins, Locke & Lasater have any discussions with
17 anyone associated with the governor's office about
18 entering the state bond business, anyone have
19 discussions?

20 A No. I have never spoke with the
21 President.

22 Q Did anyone from Collins, Locke & Lasater

1 have discussions with Governor Clinton or anyone on
2 his staff about the possibility of going into the
3 market?

4 A Not that I know of, and I did not.

5 Q How did the company come to hire Mr. Drake?

6 A He was -- he did underwritings. It is kind
7 of standard in the security business with all of the
8 security firms that were here then; Hill, Crawford
9 and Stephens, there were like 10 or 15 of them in
10 municipal bonds. If you got into underwritings, you
11 got the first choice of bonds, if you were able to
12 get bonds for your customers and so forth.

13 Really, I guess me trying to -- it is kind
14 of like a mark of legitimacy, like when you're
15 printed up in the Wall Street Journal, you
16 participate in this bond issue or you help underwrite
17 this bond issue. A lot of customers wouldn't even
18 deal with you unless you were an underwriter. We
19 were trying to bring some little school bond issues,
20 we were talking about that.

21 Q It brought a lot of prestige to the firm?

22 A It really does.

1 Q And helps you develop a client base?

2 A Yes, like the little school bond issues
3 that come around Arkansas here. I remember us
4 talking about we would try to get some of them
5 because the minute you got them, you were able to
6 sell them to the bank, because everybody wanted
7 them.

8 Q Becoming an underwriter gave you access to
9 the bonds so you could then in turn sell them?

10 A Right, sure. It gave the firm really a
11 mark of legitimacy to be an underwriter. That's what
12 I was trying to achieve.

13 Q Were you able to achieve that, you think?

14 A No.

15 Q Why not?

16 A We did one bond issue, and I can't -- it
17 was with PaineWebber and a bunch of other people,
18 where we participated in this Arkansas Housing
19 Development Authority, that we participated in and we
20 bid in. I kind of thought it was a feather in our
21 cap, to be honest with you. But we did participate
22 in that one.

20

1 We bid a couple school issues, and I can't
2 really remember if we won any or not, you know, the
3 little million, \$2 million school bond issues. I
4 can't remember if we won any or not. I don't think
5 so but we may have.

6 See, I got kicked out of the firm, and this
7 was just for about a six-month period there --

8 Q From January to July 1983?

9 A Well, it kind of in '82-ish when we started
10 it up to the fall of '82. In July of '83 I was gone.

11 Q Do you recall exactly when you hired
12 Mr. Drake?

13 A No, I don't.

14 Q If you can, give your best approximation.

15 A It would have been, I think, in the fall or
16 real early, January, February, fall of '82 or the
17 spring of '83, in that six-month time frame there.
18 But I can't remember exactly.

19 Q Did you have anyone from the firm handle
20 underwriting before Mr. Drake arrived there?

21 A Not really. We had a couple of -- I can't
22 even remember his name. We had a couple guys that

1 were kind of familiar with underwriting, but I can't
2 remember. I don't think now -- I'm not real sure --
3 it is 15, 16 years ago. I don't think we bid on
4 anything else. We may have but I don't think so. I
5 brought Michael Drake over to start us into the
6 underwriting business.

7 Q When you hired Mr. Drake, did you hire
8 anyone else to perform underwriting?

9 A No. He was the head of that department.
10 There may have been a girl with him or something, but
11 he was the head of the department.

12 Q What were his responsibilities and
13 functions as head of underwriting?

14 A As I remember, to try to get us into bond
15 issues and to help us bid them. It was complicated.
16 I didn't know how to do it, how to figure all the
17 figures, bid on them and so forth and so on, to
18 solicit the business, to -- there is quite a
19 complicated formula.

20 I have been out of the business for 10
21 years. There is quite a complicated formula that you
22 bid and you try to make sure you don't overbid

22

1 because then you get stuck with all the bonds.

2 Q Did Collins, Locke & Lasater actually put
3 the bids for the underwriting structures or were
4 those done by lead underwriting firms from New York?

5 A I can't really remember. We were one of
6 the ones that put it -- I think it was PaineWebber.
7 There were three or four people involved as kind of
8 the lead underwriters. I can't honestly remember who
9 put the actual bid in, but we were one of the three
10 or four lead underwriters.

11 Q Was that with the Arkansas Housing
12 Development Agency?

13 A Yes, sir, I believe that's what it was.

14 Q Do you recall if that was a single family
15 or a multifamily offering?

16 A I can't remember. I remember it was
17 Arkansas Housing bonds.

18 Q Did anyone by the name of Tom Carter do any
19 underwriting work?

20 A Yes, Tommy, I think he joined -- I can't
21 remember exactly when he joined the firm. But he had
22 some underwriting experience. He was from Memphis

1 also. He was more kind of like a trader. But he
2 also did work with Drake and so forth in some of the
3 underwritings. I had forgotten totally about Tommy
4 Carter.

5 Q Hello?

6 A I heard a beep. There's another beep.

7 Q We had that in one of our other
8 depositions.

9 When the company began getting involved in
10 underwriting, would its main focus be involved in
11 Arkansas Housing Development Agency underwritings?

12 A It was to try to get into the underwriting
13 business in general.

14 Q In general?

15 A Yes, sir.

16 Q With regard to the underwriting business,
17 what percentage of it would you say was derived from
18 doing work with the Arkansas Housing Development
19 Agency?

20 A A small percentage.

21 Q Of underwriting?

22 A It was a small percentage of our overall

1 business. Most of it was in the secondary market. I
2 don't know how much.

3 Q You don't know with regard to the
4 underwriting business?

5 A I don't know what percentage, no, sir.

6 Q What percentage of the secondary market
7 business -- let me rephrase that.

8 You said becoming an underwriter gave you
9 access to the bonds; is that right?

10 A Right. If you were an underwriter, you got
11 first choice at the bonds. I believe that's the
12 case, yes.

13 Q When you are talking about what percentage
14 of your business was derived from the underwriting,
15 were you including the money that the company made
16 from having access to those bonds and selling them?

17 A What I meant was that most of our income,
18 the firm's income, was derived from selling other
19 bonds, secondary bonds, Ginnie Maes, governments,
20 other municipals. The best of my knowledge, 75, 80,
21 90 percent of the income was derived from what I
22 would call secondary market trading. I remember the

1 Arkansas HDA deal, but it wasn't a major portion
2 because we were just getting started when I was
3 there.

4 Q When you were there, it was kind of in its
5 infancy?

6 A Kind of a what?

7 Q In the beginning stages of building up that
8 business.

9 A Right, that's what we were trying to do.
10 It wasn't a major portion of our income base, if I
11 remember correct.

12 Q That's in 1983?

13 A '82. I would tell you the fall of '82 and
14 the spring and summer -- I was gone in June, but in
15 July, for that eight-, nine-, 10-month period there.

16 Q Do you recall a 1984 multifamily housing
17 offering that the -- a 1983 multifamily issue that
18 Collins, Locke & Lasater was chosen to be underwriter
19 for in or around April of 1983?

20 A That may be the one we are talking about.
21 I remember one Arkansas -- I thought they were
22 Arkansas Housing Development bonds, but I'm not real

26

1 sure, multifamily housing bonds or something. There
2 was one big old bond issue that we participated in,
3 and I'm just really not -- I don't know the exact
4 name of it; it is so long ago.

5 Q Do you recall whether the issue that you
6 are thinking of, whether Collins, Locke & Lasater
7 submitted a proposal to AHDA with other competing
8 firms?

9 A What I recall -- and I can't remember who
10 the other people in it were, I think it was
11 PaineWebber. I just can't remember all the people
12 who were involved -- that we submitted a bid for that
13 bond issue and that we won that bond issue. We had
14 the lowest bid, I guess. But it was with a group of
15 people. PaineWebber. I can't remember who else was
16 in it.

17 Q Do you remember a multifamily issue that
18 involved Merrill Lynch, Stephens, Inc., T.J. Raney,
19 and Lasater in or around April of 1983?

20 A I should remember April '83. I don't
21 remember Merrill Lynch. PaineWebber sticks in my
22 mind. I can't really -- I can't recall the exact

1 firms. Maybe it was Merrill Lynch, but I can't
2 recall.

3 Q During 1983, did you have any contact with
4 any of the members of the Arkansas Housing
5 Development Agency, any of the board members?

6 A No, sir.

7 Q Are you familiar with a gentleman by the
8 name of George Wright?

9 A George Wright? No, sir. Again, this is 15
10 years ago. Right now, George Wright does not ring
11 any bell to me at all.

12 Q How about Mort Hardwicke?

13 A Mort Hardwicke? Not that I can recall at
14 all, no, sir.

15 Q Do you recall in or around April 1983 where
16 Collins, Locke & Lasater was chosen as a co-manager
17 for an underwriting after other underwriters had been
18 chosen previously for an underwriting?

19 A No, sir. Other underwriters had been
20 chosen and then we got the bond issue?

21 Q You were included with the other firms
22 afterward.

28

1 A No, I don't recall that, no.

2 Q I'm going to read to you from a document
3 that has been produced to the Special Committee.

4 A Right.

5 Q Concerning the confidentiality agreement we
6 have entered into with individuals in any of these we
7 have subpoenaed for documents, we are not able to --
8 we have confidentiality agreements which prevent us
9 from mailing this to you.

10 A Okay.

11 Q That's one of the limitations of a phone
12 deposition. So if you can just bear with me, I will
13 identify the document and describe it. Then I will
14 ask you some questions.

15 A Sure.

16 Q This is a multipage document, four pages,
17 and it is entitled "Arkansas Housing Development
18 Agency special executive board meeting, 4:10 p.m.,
19 April 19, 1983."

20 A April when?

21 Q April 19, 1983.

22 A I wanted to make sure I was still there

1 then. April of '83, okay.

2 Q And it lists the board members that were
3 present and AHDA staff members. There is another
4 section which says "others present," and it includes
5 Ms. Johnnie Holcomb of Stephens, Inc.; Mr. Bob Snyder
6 of T.J. Raney & Sons Inc.; Mr. Jack Williams and
7 Mr. David Menz of Wright, Lindsey and Jennings;
8 Mr. Jim Fowler of the Rose Law Firm. " And then it
9 reads "Mr. Tom Carter of Collins, Locke & Lasater,"
10 then "Mr. Dabbs Sullivan of Dabbs Sullivan; Ms. Carol
11 Matlock of the Arkansas Gazette."

12 A Okay.

13 Q On the third page of the document, there is
14 a paragraph which reads "upon Mr. Hardwicke's request
15 for further business, Mr." --

16 A Mr. Who?

17 Q "Upon Mr. Hardwicke's request for further
18 business," one of the board members, "Mr. Wright,
19 another board member, made a motion that Collins,
20 Locke & Lasater be added to the underwriting team for
21 the agency's proposed 1983 multifamily issue in order
22 to spread it around and include more local Arkansas

30

1 underwriters on this issue." Then Mr. Edwards
2 seconded the motion and the board approved the same.

3 Does that help refresh your recollection as
4 to whether or not the firm became included in an
5 underwriting team after a team had already been
6 selected?

7 A Not really. I don't recall that meeting.
8 I would have thought Michael Drake would have been
9 there instead of Tommy Carter. I don't really
10 recall. I can say that we would have wanted to have
11 been included in underwritings in Arkansas and may
12 have requested that on a legitimate basis. We were
13 trying to form an underwriting department. To be
14 honest with you, it had been kind of a closed deal.

15 I wanted to -- from my standpoint
16 personally, I can -- I'm sure I thought this way back
17 then, that I would have wanted to not be shut out and
18 wanted a chance to bid on the bond issues.

19 To be quite honest with you, it had been
20 controlled by Stephens and some other people for
21 quite a long time. To be honest with you, I wanted
22 part of that business. But I don't recall that

1 meeting.

2 Q How long had the company been doing
3 underwriting or how long had the underwriting
4 department been in existence?

5 A I have answered that about three times for
6 you. I can't remember exactly. I hired Michael
7 Drake, I think, in the fall-ish or the early part of
8 '82-ish, and then it may have been the spring of
9 '83. I'm not sure.

10 We were trying to form an underwriting
11 department to participate, so we could underwrite
12 bonds and become a legitimate firm and get access to
13 the securities, et cetera, et cetera, which every
14 firm in the country was trying to do.

15 That was my sole goal, was to build a
16 better firm.

17 Q Did you ever make any recommendations for
18 nominations or appointments to the AHDA board, do you
19 recall?

20 A Not that I recall. I don't recall doing
21 any of that, no.

22 Q I have a document here which might help

32

1 refresh your recollection.

2 A Okay.

3 Q It is a one-page document that bears the
4 Bates stamps which was produced to us DKS N 027451.

5 A Okay.

6 Q It is on Collins, Locke & Lasater
7 stationery dated March 31, 1983. It is addressed to
8 the Honorable Bill Clinton.

9 A All right.

10 Q It reads -- and it is signed by David A.
11 Collins, president and chief executive officer.

12 A That's me.

13 Q And it reads "Dear Governor, I'm writing to
14 express Collins, Locke's enthusiastic support of the
15 appointment of Ms. Linda Trent to the position of
16 executive director of the Arkansas Housing
17 Development Agency. It is our view that Ms. Trent
18 will provide the agency with much needed leadership
19 and serve the state in an exemplary fashion."

20 Do you recall writing that letter?

21 A No, sir, I do not. I'm sure I did, though,
22 if I signed it, but I don't recall it.

1 Q Do you know who Linda Trent is?

2 A No, sir, I do not. I can't recall who she

3 is. Obviously I wrote the letter, if I signed it.

4 But it is so long ago, I don't recall. I don't know

5 who Linda Trent is now and I don't know her and don't

6 recall who she is. Obviously I wrote the letter if I

7 signed it.

8 Q During the period --

9 A When was that written?

10 Q March 31, 1983.

11 A 1983?

12 Q Yes, sir.

13 A As I stated, I would have encouraged

14 anything we could to get in -- to get the right to

15 bid on bond issues. I don't know what else to say.

16 Q While you were at Collins, Locke & Lasater,

17 did the firm ever experience any net capital

18 problems?

19 A Yes, we had a net -- I believe we had a

20 couple of net capital violations on some fails, on

21 some government securities, and so on and so forth.

22 I believe we had a couple of them.

1 Q Was the firm sanctioned for those net

2 capital violations?

3 A I can't remember. We may have been. I

4 can't remember. I remember that we had a couple of

5 capital violations, but I can't remember what the end

6 result was. We may have been sanctioned. I can't

7 honestly remember.

8 Q During the time you were at the firm you

9 had more than one net capital violation?

10 A I didn't say that.

11 Q That's a question.

12 A I don't know. I recall that we did have --

13 I think we had an argument about a net capital

14 violation. I don't know whether it was one or two.

15 I can't recall.

16 Q Do you recall what the argument was about?

17 A Yes. I mean, you know, misunderstandings

18 between primarily Lasater and I. We really didn't

19 speak for the last six months, to be honest with you,

20 to tell you the truth.

21 Q The last six months you were at the firm?

22 A Pardon me?

1 Q You didn't speak for the last six months
2 you were at the firm?

3 A Well, the last three months we didn't get
4 along.

5 Q What was the basis of the misunderstanding?

6 A Just a difference in philosophy. I built
7 the firm and worked real hard. I guess he didn't
8 feel that way.

9 Q Could you be more specific about what the
10 difference in philosophy was.

11 A You know, I was a hard worker, there at
12 7:00 every morning until 6:00 or 7:00 at night. I
13 kind of felt like it was my firm, so to speak. And
14 he had put in some additional capital when it was
15 needed, and he kind of started getting more involved
16 in the firm. And I guess I -- partly my own fault.
17 I felt like I should have been running the firm, and
18 I guess he felt like he should have, or something to
19 that effect.

20 He got more involved in it in the last six
21 months to a year.

22 Q He got more involved in the day-to-day

1 operations?

2 A Not necessarily the day-to-day operations.
3 He had an office down there. At first he didn't have
4 an office, just talking and was involved with people
5 and so forth. I guess I kind of felt like I had
6 built the firm there for the first couple years, kind
7 of my firm, so to speak. I guess he didn't feel that
8 way.

9 Q And was he involved in helping get state
10 underwriting business for the firm?

11 A I can't -- I know what you are asking.
12 No. We hired Michael Drake, as I said. And Tommy
13 Carter -- now that you mentioned his name -- he had
14 some underwriting experience himself too. George may
15 have, being a state senator, we wanted to get into
16 bond issues, we were trying to get involved in
17 underwritings. And I'm sure that we -- I am sure. I
18 asked George can you help us get into bond issues.
19 It was kind of a closed deal here, controlled by some
20 other people.

21 I'm trying to think of an honest way to
22 answer you. Dan wasn't really per se -- he didn't

1 know anything about the bond business or the
2 underwriting business. But we were actively trying
3 to build an underwriting department.

4 Am I making any sense to you?

5 Q Yes.

6 A We were actively trying to build an
7 underwriting department. I became less active in the
8 whole spring of '83, and then in essence, was booted
9 out in June and July of '83, when I was actively
10 trying to build a good firm, an underwriting
11 department where we could underwrite municipal bonds
12 primarily. That's where our experience lies. And we
13 could become a legitimate, good firm.

14 I may have written a letter. I would have
15 done anything I could have, legally and legitimately,
16 to try and build an underwriting department. He
17 didn't know the bond business, Dan didn't.

18 Q Were there any discussions about talking
19 with anyone in the governor's office to try to open
20 up the state bond business? You said earlier you
21 thought it was closed off a little bit.

22 A I can't recall specifically, but there may

38

1 have been. We discussed hey, we want in, we want the
2 right to bid these bond issues. I didn't talk to the
3 governor. I talked to him once or twice in my whole
4 life.

5 There may have been some discussion there
6 that George being a state senator could help us, we
7 could get into the bond issues, give us the right to
8 bid on them and don't shut us out. I'm sure we were
9 trying to do everything we could to get into the
10 underwriting business. I don't know if any of that
11 has made any sense to you. I'm just trying to be
12 honest with you.

13 Q I appreciate it. Are you aware of any
14 specific discussions that Mr. Lasater had with the
15 governor on that subject?

16 A No, sir, I'm not.

17 Q I was referring to the March 31 letter --

18 A The one on Linda Trent?

19 Q Yes. The last sentence of the letter reads
20 "I'm looking forward to welcoming you and Hillary to
21 our Derby Day party and trust you will find it
22 convenient to attend."

1 A Derby Day party. When was this, in March
2 of '83?

3 Q Yes, sir.

4 A We gave a Derby Day party because Lasater
5 was primarily -- I don't know a horse from one end to
6 the other. He was in the horse racing business, and
7 George was in a smaller way. Dan was in a big way.

8 We gave a Derby Day party there. I can't
9 remember when the horse racing season was, but we
10 gave one. I would have thought it would have been
11 over by March 31st, but maybe I'm wrong. In the
12 spring of '83.

13 Q That was for the Arkansas Derby?

14 A Yes, sir.

15 Q Do you recall whether or not the Governor
16 and Mrs. Clinton attended that Derby Day party in
17 1983?

18 A I believe the governor did attend the
19 party.

20 Q Did you speak with him at the party?

21 A I shook his hand. I really don't know the
22 man. The best of my knowledge, I have spoken to him

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1 or said hello two or three times in my whole life.
2 No conversation. But I have said hello and shook his
3 hand. I have said hello and how are you, and this
4 and this and this.

5 Q Where was that party held?

6 A It was held at the Arlington Hotel in Hot
7 Springs.

8 Q How many people attended it?

9 A God, it was a big party. What is your
10 first name? I'm sorry.

11 Q My name is Michael.

12 A Michael, it was a large party, but I would
13 say several hundreds of people.

14 Q Was it in a ballroom?

15 A Yes. We had rented the big room there in
16 the Arlington. I think it was the ballroom. It was
17 a very large room.

18 Q Had people attended the Derby beforehand
19 and then moved to the Arlington hotel?

20 A I believe that would be the case, that most
21 of the people that came, most of them were horse
22 racing people, that they would have attended the

1 Derby and then come to the party.

2 Now, there may have been some people that
3 drove in for it, but I would say more than 50 percent
4 of them came from the horse race, from the Derby that
5 day.

6 Q Did you watch the races? Did you attend
7 the races that day?

8 A Yes.

9 Q Where did you watch them from?

10 A I think I sat in George Locke's box, which
11 was close to Dan's box. They were like --

12 Q Were they next to each other?

13 A 30, 40 feet away. I can't remember whose
14 box I sat in. I guess at that time I probably sat in
15 George's box, may have sat -- I doubt very seriously
16 I sat in Dan's box.

17 Q Why is that?

18 A Well, we just weren't getting along real
19 good at that time.

20 Q Did the governor attend the race?

21 A I don't think so. I don't recall the
22 governor being there, no, sir.

1 Q How long did he attend the party for, if
2 you remember?

3 A Gosh, I don't have the slightest idea. I
4 think I remember him being there, and I shook his
5 hand, but I don't have the slightest idea how long he
6 stayed.

7 Q While you were associated with Collins,
8 Locke & Lasater, were you aware of any illegal
9 activity that was engaged in by the company with
10 regard to their functioning as a financial firm?

11 A Any illegal activity?

12 Q Yes, sir.

13 A No, sir. None whatsoever that I was aware
14 of. I remember a net capital violation and that's
15 it.

16 Q Other than -- this may be repetitive. Let
17 me know if it is.

18 A Sure.

19 Q Other than the net capital violation you
20 have discussed, was the company the subject of any
21 disciplinary action by any state or federal
22 regulatory agencies?

1 A I remember that we had an NASD net capital,
2 and I don't know whether that fell over into the
3 state. I think we may have had a state violation
4 too, in regards to that type of thing, but I'm not
5 real sure of that.

6 If certain bonds failed, if we did too much
7 business, you had to have X, Y, Z. In fact, that's
8 why I think we were trying to find a government
9 securities firm that didn't have those net capital
10 requirements. If you did too much business, the bond
11 failed, it didn't clear properly, it would throw you
12 into a net capital violation.

13 Q Do you recall whether there was an
14 accounting for assets that was inaccurate, using hard
15 assets as liquid assets doing the accounting?

16 A No, sir, I don't, no. What do you mean by
17 "hard assets"? I don't understand.

18 Q I'm probably not expressing it properly.

19 A All right.

20 Q Are you okay now?

21 A Yes. We were talking about hard assets.

22 Q Was there a boat that was counted against

1 the company's net capital line, anything like that?

2 A We owned a boat. That may have been one of
3 the differences we had with the NASD, the investment
4 in the boat. I don't recall. But I do remember that
5 we did own a boat.

6 Q But that doesn't refresh your recollection?

7 A No, I don't remember the specifics. It is
8 14 years ago, or 13. I don't remember the
9 specifics. But that could have been involved, but I
10 don't recall that specific thing.

11 Q Who was the securities commissioner at the
12 time you were at the company?

13 A Lee Thalheimer.

14 Q Lee Thalheimer?

15 A Lee Thalheimer. I'm not real sure but I
16 think Lee Thalheimer.

17 Q During your time at the company, did you
18 have any contact with Mr. Thalheimer?

19 A I'm sure I did. I think when I first
20 formed the firm or something, I talked to Lee as the
21 securities commissioner. I remember talking to him.
22 I don't remember about what specifically. But I

1 remember having several conversations with him. But
2 it may have been in regards to -- I can't remember.
3 I did talk to him.

4 Q While you were at the firm, did you have
5 any contact with anyone in the governor's office?

6 A No, sir. I don't recall that. I don't
7 recall having any contact there with him. I don't
8 recall it.

9 Q Are you familiar with anyone by the name of
10 Betsey Wright?

11 A Yes. I have read about her in the paper.

12 Q Do you know her personally?

13 A No.

14 Q During the period 1983 through 1986, are
15 you aware of any reasons where Collins, Locke &
16 Lasater or Lasater & Company -- let me rephrase the
17 question.

18 A Are you aware of whether Collins, Locke &
19 Lasater or Lasater & Company engaged in activity that
20 would have disqualified them for participating in
21 state bond underwritings?

22 A No, sir. But I was, in essence, removed

1 from the firm in June, July of '83 and didn't speak
2 to either George Locke or Dan Lasater for four
3 years. So I can't -- you said '83 through '86?

4 Q Yes, sir.

5 A I didn't like him. I didn't speak a word
6 to him. In fact, I sued him.

7 Q During the period, I guess, 1980 through
8 1983, did you participate in any meetings with the
9 governor?

10 A I don't recall. I remember meeting the
11 governor maybe twice.

12 Q You mentioned you met him at the Derby Day
13 party; is that right?

14 A Right. I may have met him -- I remember
15 shaking hands with him and saying hello, how are
16 you. No in-depth kind of conversation that I can
17 recall. I remember meeting the man two or three
18 times. I'm just trying to remember. But there was
19 no in-depth talk about bond issues or anything.

20 I guess the answer is no. But I met the
21 man two or three times. I don't think he would know
22 me from John Doe.

1 Q Did anyone at Collins, Locke & Lasater
2 maintain an apartment at Quapaw Towers?

3 A Yes. I believe Dan did, uh-huh.

4 Q Did you ever participate in meeting over in
5 the apartment at Quapaw Towers with Mr. Lasater and
6 Mr. Locke with the governor, either before or after
7 he was governor?

8 A I'm trying to think of the two or three
9 times that I met the guy. There was one time when he
10 wasn't governor. I think he got defeated or
11 something in '80 or something like that.

12 Q Yes, sir.

13 A I could have met him over there one time.
14 I met the man two or three times. I can't recall
15 exactly where I met him at. Did I meet him in the
16 Quapaw Towers? I don't recall. I could have. I met
17 the man two or three times.

18 Q Do you recall talking about supporting him
19 maybe in an election when he was out of office --

20 A I kind of remember having that kind of
21 conversation, that we would support him. I remember
22 one of the times we did meet him when he wasn't

1 governor, and I do remember talking to him. He was
2 all down and out.

3 It may have been at the Quapaw Towers. I'm
4 not real sure. I guess I would have through Dan. I
5 just didn't have any contact with the man to speak
6 of.

7 I probably would have said I would have
8 supported him, because Roger Clinton, you know, the
9 brother --

10 Q Yes, sir.

11 A -- who I didn't hardly know either, he was
12 a friend of Dan's. But I met the man two or three
13 times. Something is sticking in my head when he
14 lost, the governor, I may have met him during that
15 time. I can't remember whether it was at the Quapaw
16 Towers. It may have been down at Collins, Locke &
17 Lasater. I can't honestly remember. But I could
18 have.

19 Q Did Mr. Lasater have one apartment at
20 Quapaw Towers, or do you know if he had more than
21 one?

22 A Again, I was not privy to a lot of this.

1 One is the only one I know about.

2 Q Do you recall whether that was number 12B?

3 A Yes, yes, that's it, 12B.

4 Q I'm just trying to help you remember.

5 A It has been a long time ago.

6 Q That's part of the exercise here.

7 A Sure.

8 Q Do you recall, when the governor was out of
9 office, you said you have some memory of a meeting
10 with him, do you recall who that might have been
11 with, whether it was Mr. Locke and Mr. Lasater?

12 A Well, it would have been them that knew
13 him, George by being in the senate and Dan who had
14 known his brother.

15 So I would assume that it would have been
16 with them. I didn't know the man individually.

17 Q Was there a discussion about supporting him
18 financially for the next election?

19 A I honestly can't remember a specific
20 discussion. What sticks in my head is that he was
21 kind of down and out. I remember that. He was
22 depressed and so forth, to be honest with you.

50

1 There could have been a discussion about he
2 was going to run again and we would be supporters, or
3 something like that. George was, you know, a friend
4 of his, and I guess Dan knew his brother and was a
5 friend of his.

6 It could have been that. I'm honestly
7 trying to answer you. I have to think here. I can't
8 remember the specifics. But there could have been a
9 meeting there.

10 I remember in my head something about that
11 he had lost the election and he was out, and
12 something -- I think it was with Dan and George. I
13 just don't want to say when I'm not sure, but I think
14 it was. I didn't go to 12B hardly at all, but it
15 could have been up there.

16 Q Do you recall whether you had any
17 conversations that involved the governor where he
18 asked for financial support and he offered to help
19 get business for the company?

20 A No, no, sir. You mean we offered him money
21 and he said he would help us get bond issues? Is
22 that what you are asking me?

1 Q Any kind of help to the business.

2 A I'm sure he may have asked us for financial
3 support, but we never had any conversation where we
4 would support him financially and he would give us
5 bond issues, absolutely not.

6 Q Do you know whether the governor ever came
7 by Collins, Locke & Lasater or Lasater & Company to
8 visit? Did he ever stop by?

9 A I can't honestly recall. I know Roger did,
10 because I would see him with Dan. But I can't
11 recall. He could have. As I say, I met the man two
12 or three times and I'm just not sure exactly where,
13 but he could have stopped by there. I don't recall.

14 The specific thing was the Derby thing that
15 I met him, but I met him two or three other times. I
16 can't recall honestly exactly where it was. But he
17 could have come in to CL&L. I don't recall a
18 specific incident where he come in there, but I
19 recall meeting the man two or three times.

20 Q Do you recall whether one of those times
21 was at the office?

22 A I don't know. I can't recall where the two

52

1 or three times were. I would tell you if I knew
2 specifically where they were. I don't know the man
3 really.

4 Q I appreciate you trying to dig down in your
5 memory. I'm just trying to help you out.

6 A I'm really trying to answer you. I don't
7 have any reason not to. I can't remember exactly. I
8 don't know what else to say.

9 Q Were you aware, while you were at the
10 company, of any money laundering occurring at the
11 company through accounts set up in nonclient names?

12 A No, sir.

13 Q Have you ever heard that happen after you
14 left?

15 A No, sir. That's a new one on me. The
16 answer is definitely no.

17 Q Did you ever become aware that Mr. Lasater
18 made a loan to Roger Clinton of about \$8000?

19 A I was not privy to that loan, but I did
20 hear about it. I don't know when it was done. I
21 again was not privy to any of that. But I knew Dan
22 was a friend of Roger's, and I just wasn't involved

1 with him. I don't know when it was done, but I have
2 heard about it. I can't remember whether I heard
3 about it down there at that time or read about it in
4 the newspaper.

5 Q Okay. Did anyone at Lasater & Company have
6 any relationship with anyone by the name of Bob Nash
7 at the governor's office?

8 A That name rings a bell. I have heard the
9 name Bob Nash before. I don't know.

10 Q How about Maurice Smith?

11 A Maurice Smith?

12 Q Yes, sir.

13 A That name again rings a bell, but I don't
14 know. Those names are familiar to me, name
15 recognition, but I don't know of anything
16 specifically.

17 Q While you were at the company, did the
18 company own any aircraft?

19 A Yes. I'm not quite sure how all this
20 worked too. Dan -- again, I am gone from there. I
21 really was going in the spring of '83. But during
22 the time I was there, there was a Hansa Jet that I

1 think Dan bought, called a Hansa Jet.

2 Q How do you spell that?

3 A H-a-n-s-a, a German jet. The wings went
4 backwards. They were funny looking.

5 I think this is one of the things we got
6 into an argument about. He sold the plane to the
7 company or something and we bought another airplane,
8 a Jet Commander. It was kind of the company's
9 airplane.

10 I think Dan had a Learjet of his own. The
11 Jet Commander kind of became the company airplane.
12 If I remember correctly, I disagreed with the value
13 of the Hansa Jet.

14 Q What he sold it for to the company?

15 A Or what it was traded in for and the
16 company paid for. I remember having an argument with
17 him over that.

18 Q Did the governor fly in any of those planes
19 at any time?

20 A I heard he did, but to the best of my
21 knowledge, I don't recall him flying in them. He
22 didn't fly while I was there, but I heard he did.

1 But I wasn't with him when he was flying.

2 Q Did you hear that while you were at the
3 company?

4 A Pardon me?

5 Q How did you hear that he had flown on the
6 jet?

7 A I had heard this several years later.

8 Q Who did you hear it from?

9 A I heard that he had flown. I think it was
10 well after I had gone. But I had heard that he had
11 flown in it, I guess it would be Lasater & Company at
12 that time. To the best of my knowledge, I don't
13 recall him ever flying in the company airplane.

14 Q Where did you hear that from?

15 A It was all over the town here in '85 and
16 '86, I think when Governor Frank White was running.

17 Q You think you heard of it through the media
18 or word of mouth?

19 A I can't recall. It could have been both.
20 I really can't remember. I have a general
21 recollection that somebody said that the governor had
22 flown in one of Dan's airplanes or something.

56

1 Q Are you aware of any illegal activity that
2 occurred in connection with Mr. Lasater's investment
3 in Angel Fire?

4 A No. That is well after I am gone.

5 MR. FEUER: I would also point out that on
6 the face of that question, it is not within the scope
7 of the Senate Resolution that authorizes our
8 investigation.

9 THE WITNESS: Okay.

10 MR. O'CALLAGHAN: I will explain quickly
11 why I asked the question. There have been reports
12 that some illegal activity may have incurred in an
13 investment Mr. Lasater made in Angel Fire. The
14 reason I asked the question was to set up a
15 foundation to see whether Mr. Collins had any
16 knowledge of anything of that nature.

17 From there, I would ask whether or not he
18 knew whether the governor had any knowledge of
19 anything of that nature. That was the purpose of the
20 question.

21 THE WITNESS: I was not there and not privy
22 to any of that.

1 BY MR. O'CALLAGHAN:

2 Q During the period 1983 through 1986, how
3 would you describe the relationship that existed
4 between Mr. Lasater and Governor Clinton?

5 A I have no earthly idea of any
6 relationship. I did not speak to Dan from July of
7 1983 for about a 3-1/2-to four-year period of time.

8 Q How about prior to the time when you
9 stopped speaking with each other, were they close
10 friends or acquaintances?

11 A I don't recall him being close friends, to
12 be honest with you, close friends or acquaintances.
13 The only person I remember him being a close friend
14 with was Roger Clinton.

15 Q And he is also an acquaintance of
16 Ms. Virginia Kelley, Governor Clinton's mother?

17 A I don't know that.

18 MR. O'CALLAGHAN: I would like to go off
19 the record for a second.

20 (Recess.)

21 BY MR. O'CALLAGHAN:

22 Q Do you know who Patsy Thomasson is?

1 A Yes, sir.

2 Q How do you know her?

3 A She was a friend of George's. George used
4 to date her in the '70s. So I knew her originally, I
5 would say, '73, '74. George used to date her.

6 Then I didn't see her again until '81 or
7 '82.

8 Q How did that come about?

9 A She asked for a job.

10 Q Who did she ask for a job?

11 A Probably all three of us. I made the
12 mistake of letting it happen.

13 Q Why was that a mistake?

14 A I don't mean to -- I don't like her. I
15 shouldn't be saying that on the record. In '82-ish,
16 she was hired at Collins, Locke & Lasater.

17 Q What was she hired to do?

18 A I'm not real sure.

19 Q Why is that?

20 A Well, I don't know. I did not get along
21 with the woman. I disagreed with her philosophy on
22 how to treat people, et cetera. I'm not real sure

1 what she did.

2 Q Was she involved in --

3 A I was only there for four or five months
4 and then I was gone and he continued on.

5 Q Did she have any involvement in helping out
6 with the activities of Mr. Drake and other people
7 working on underwriting?

8 A You know, she was politically -- in this
9 political circle in the state of Arkansas, but I
10 can't recall any specific instance, but she could
11 have. I think she was a highway commissioner for the
12 state of Arkansas. So she had -- she knew the
13 politicians within the state.

14 I'm sure she could have helped the firm try
15 to do whatever we could to advance the firm. I
16 personally didn't speak to her much and did not get
17 along with her on an individual basis.

18 MR. O'CALLAGHAN: I'm going to continue
19 this in a moment. We have to take a short break.

20 (Pause.)

21 BY MR. O'CALLAGHAN:

22 Q Are you aware of any efforts, any specific

60

1 efforts Ms. Thomasson made with regard to helping the
2 company get underwriting contracts?

3 A I'm not aware of any specific situations,
4 but I would have thought that she would have tried to
5 help us in any way she could have to get
6 underwritings. I'm not aware of any specific
7 instances.

8 Q Lobbying people in state government, that
9 type of thing?

10 A I don't really know how to answer that.
11 She was an Arkansas highway director, and she knew
12 some of the politicians within the state. I'm sure
13 she would have tried to help the firm in any manner
14 reasonably that she could have. I don't know of any
15 specific instances.

16 Q Was she familiar with the governor,
17 Governor Clinton?

18 A I don't know who she was familiar with. I
19 would assume So but I really don't know. I don't
20 know what her and the governor's relationship was.

21 Q While you were at the firm, did they
22 contribute money to Clinton campaign or inaugural

1 funds?

2 A Well, I would have been gone well before
3 the inaugural fund.

4 Q I guess it would be the inaugural fund in
5 '82.

6 A You are talking about the governor?

7 Q Yes, gubernatorial inaugural fund, if they
8 exist.

9 A We supported the governor, and to be honest
10 with you, I still like him. I can't recall, but we
11 could have. I could have given donations to him,
12 yes, but I don't recall, but I probably did.

13 Q Did the firm encourage employees to support
14 the governor with contributions?

15 A Let me think. I don't recall. I would
16 have told people probably to try to support the
17 governor. I wouldn't have gone out and say hey, beat
18 somebody over the head for something. But we did
19 support the governor.

20 I'm trying to think. I don't remember
21 specifically. I could have said that we support the
22 governor and we think he is a great guy and would

62

1 like for you to support him. I don't remember any
2 specific incidents, but we could have -- we did
3 support the governor.

4 Q Are you -- were any Lasater -- let me start
5 again here.

6 Were any Collins, Locke & Lasater employees
7 reimbursed for any contributions they made to any
8 funds --

9 A No, not that I recall at all, not that I
10 know of.

11 Q If I can just finish. I will ask the
12 question again.

13 Did any Collins, Locke & Lasater employees,
14 were they ever reimbursed for contributions they made
15 to either Clinton gubernatorial campaign or inaugural
16 funds?

17 A Not that I know of, not that I recall.

18 Q Have you ever heard that happened?

19 A No. Something is in the back of my mind
20 from years ago that we got accused or something like
21 that, but I don't recall. That sticks in my mind,
22 but I don't recall ever telling somebody we will give

1 them money to give money to the governor.

2 MR. O'CALLAGHAN: We have to go off the
3 record one moment, please.

4 (Discussion off the record.)

5 BY MR. O'CALLAGHAN:

6 Q You are not aware of people being
7 reimbursed for campaign contributions?

8 A I don't recall any of it, I'm not aware of
9 it, no, sir.

10 Q Are you aware whether the firm ever
11 provided any funds or any type of remuneration to
12 anyone in the governor's office in order to be
13 included in state bond underwritings?

14 A No, sir, no, sir.

15 Q Are you aware whether anyone from Collins,
16 Locke & Lasater either attempted to or did provide
17 the governor with any cash or other type of
18 remuneration in return for being included in state
19 bond underwritings?

20 A No, sir.

21 Q Did Madison Guaranty & Trust maintain any
22 accounts at Collins, Locke & Lasater?

1 A Not that I'm aware of. Again, I was
2 gone --

3 Q In June, July of '83.

4 A Yes, '83.

5 Q Okay. Have you ever learned that there was
6 any money laundering associated with AHDA and ADFA
7 bond offerings?

8 A No, sir.

9 Q I just have a couple more questions,
10 Mr. Collins.

11 A Sure.

12 Q Did you ever attend a Christmas to Share
13 program in Hot Springs in 1983?

14 A A Christmas what, sir?

15 Q A Christmas to Share program in 1983 in Hot
16 Springs.

17 A I don't recall. A Christmas to Share?
18 What was it, a party or something?

19 Q I believe so.

20 A I don't recall that, no, sir.

21 Q Are you familiar with something called the
22 Mount Hood Pension Fund?

1 A The what?

2 Q The Mount Hood Pension Fund.

3 A No, sir. The what pension?

4 Q Mount Hood?

5 A Mount like Mount Hood Pension Fund?

6 Q Yes.

7 A No, sir, no, sir.

8 Q I'm going to read you a paragraph from a
9 letter produced to the Committee. It is a two-page
10 document Bates stamped DKSX 027455 --

11 A All right.

12 Q -- and DKSX 027456. It is dated December
13 14, 1983, and it is on Lasater Farm stationery. It
14 has a picture of a jockey with an L on his back.

15 A I remember that stationery.

16 Q It is addressed to the Honorable Bill
17 Clinton, and it reads "Dear Bill, it was a pleasure
18 to see you yesterday at the Hot Springs Christmas to
19 Share program and to visit with you by telephone last
20 night. We wanted to follow up with the details of
21 our correspondence in this correspondence. With
22 regard to the disbursement of the securities owned by

1 Mount Hood Securities and National Investors Pension
2 Fund, we have been working hand-in-hand with the
3 personnel toward an orderly sale of the holdings, and
4 in fact, handled the first stage of the disbursement
5 in November when we participated in liquidation of 30
6 million of Illinois bonds. The companies have been
7 our clients for quite some time and the account
8 representatives are very familiar with the portfolios
9 which are extremely important to the sales process."

10 A Right.

11 Q Then there is a short paragraph, and then
12 the next paragraph after that reads "as we discussed
13 rumor has it that co-managers of First Boston,
14 Stephens, Inc. will be appointed the first of the
15 year to consummate any further transactions in the
16 portfolio. It is estimated there is approximately
17 1.9 billion debt securities which it is expected will
18 be sold. If First Boston is appointed, it will mean
19 that a larger percentage of the proceeds will be
20 leaving Arkansas."

21 Are you familiar with the situation
22 described in the letter?

1 A Basically, no. I kind of recall something
2 about there was an insurance company that was
3 liquidating. It may have been National Old Line or
4 something. I'm not sure. To be honest with you, I
5 can't remember any of the details. We would have
6 been aggressively trying to get business, which we
7 should have been doing.

8 But I don't recall that letter. I don't
9 know anything -- I don't recall anything about a
10 Mount Hood Pension Fund, nor do I recall anything
11 about this Christmas deal.

12 Q The Christmas party?

13 A Yes, sir. There is something in the back
14 of my head that there was an Arkansas -- somebody was
15 going to be selling bonds. I don't remember anything
16 about the letter, the Christmas party or that.

17 Q Okay.

18 A I'm trying to answer. Have I answered your
19 question?

20 Q You can only answer what you remember.

21 A I know.

22 Q Do you know why Mr. Lasater would have

1 directed this letter to the governor with regard to
2 the liquidation of the insurance --

3 MR. FEUER: Michael, I would point out,
4 number one, this letter was written in December of
5 1983, which is six months after Mr. Collins left
6 Collins, Locke & Lasater. He has already testified
7 that he doesn't recall anything having to do with the
8 Mount Hood Pension Fund.

9 I further point out that this also does not
10 fall within the scope of the Senate Resolution which
11 calls upon the Committee to investigate bond
12 underwriting contracts between Lasater & Company and
13 the Arkansas Housing Development Agency.

14 MR. O'CALLAGHAN: The reason I was asking
15 the question, and I don't know if Mr. Collins can
16 answer it, but it is to establish whether or not
17 Mr. Lasater was getting assistance from the governor
18 in other matters similar to state bond underwritings
19 which would perhaps show a pattern of behavior or
20 conduct which would indicate or go to show that
21 Mr. Lasater or Lasater & Company was receiving
22 preferential treatment from the governor's office.

1 MR. FEUER: Even if the premise of your
2 question were true, Mr. Collins has already testified
3 more than once that he left Collins, Locke & Lasater
4 in June or July of 1983 and didn't speak with
5 Mr. Lasater for some period of time after that.

6 MR. O'CALLAGHAN: If he doesn't know, he
7 doesn't know.

8 THE WITNESS: I -- I will shut up.

9 BY MR. O'CALLAGHAN:

10 Q You have no knowledge of that?

11 A No, sir. Not speaking up for anybody, but,
12 you know, and certainly not Dan Lasater during this
13 period of time. We did not like each other. But as
14 a firm, as it goes to underwriting, Michael, you
15 would have aggressively tried to seek business,
16 honest, good solid business. That's what you were
17 supposed to do to try to make a living. I shouldn't
18 say that, but --

19 Q That's fine.

20 I actually don't have any further questions
21 at this time.

22 The way we usually work, Mr. Collins, is

70

1 the Majority asks questions first and the Minority
2 has an opportunity to ask follow-up questions. If
3 Mr. Feuer has some, he will do that. If I feel the
4 need, I will ask some more after him.

5 We will let Mr. Feuer take the floor.

6 EXAMINATION

7 BY MR. FEUER:

8 Q Let me introduce myself again. My name is
9 Mitchell Feuer. I'm a counsel on the Democratic
10 staff of the Senate Banking Committee. For the
11 purposes of today's deposition, I will be asking you
12 some questions on behalf of the Democratic Senators
13 who sit on the Senate Special Whitewater Committee.

14 A Yes, sir.

15 Q As Mr. O'Callaghan pointed out, the
16 Republicans ask the questions first and the Democrats
17 go second. I will cover some of the same ground that
18 he has already covered, so I apologize for the
19 repetitive nature of the process. But I will try to
20 be as brief as I can.

21 If you don't hear my question, please let
22 me know and I will repeat it. If you don't

1 understand my question, please let me know and I will
2 rephrase it so that we understand one another.

3 A Yes, sir.

4 Q Prior to joining T.J. Raney in Little Rock
5 in 1979, which firm were you working for in Memphis?

6 A The name of the firm was Bevel, Bresler &
7 Shulman. I first started working at a firm called
8 UMIC. I believe that was the name, UMIC. And then I
9 worked in Memphis for a firm called Bevel, Bresler &
10 Shulman.

11 Q That was a securities firm?

12 A Yes, sir.

13 Q What type of securities work did you do for
14 that firm?

15 A Primarily fixed income bonds, government
16 and municipal bonds.

17 Q Did there come a time in 1983 when Collins,
18 Locke & Lasater was awarded a bond underwriting
19 contract for the Arkansas Housing Development Agency
20 with PaineWebber and some other underwriting firms?

21 A Yes, sir. I believe we did win -- I'm not
22 sure of the exact issue. But we did win an Arkansas,

1 I think it was housing bond issue. I can't remember
2 who the other firms were, but PaineWebber does stick
3 in my mind.

4 Q Did Collins, Locke & Lasater help
5 PaineWebber structure that deal?

6 A I would think that Michael Drake, who was
7 supposed to be -- and Tommy Carter in a lesser way --
8 would have worked with the underwriters at
9 PaineWebber and everybody would have worked together
10 on it, I would think, to come up with a final bid,
11 work with PaineWebber and whoever else was in it.

12 Q Was Collins, Locke & Lasater responsible
13 for finding investors for a certain portion of the
14 bonds that were issued by the housing agency at that
15 time?

16 A You know, when you -- as a manager or
17 whatever, when you win a bond issue -- and again, I
18 have been out of this business for a long time -- you
19 agree to take so many bonds down or you agree to kind
20 of be responsible for X,Y,Z bonds. I believe that's
21 the way it works. If they go down, you lose money.
22 If they go up, you hope you make a little money.

1 We could have been responsible for a
2 certain amount of those securities, a million or
3 \$2 million worth or something. I can't recall. I
4 believe that's the way it worked. When you were one
5 of a group of lead underwriters, you were responsible
6 for a certain amount of bonds.

7 Q Do you have any reason to think that
8 Collins, Locke & Lasater wasn't sharing the same
9 risks that the other underwriters were?

10 A Oh, no, sir.

11 Q As far as you know, Collins, Locke &
12 Lasater was at risk on the bonds that it underwrote?

13 A That's correct.

14 Q Was there a change in the composition of
15 firms that underwrote state bond issues in Arkansas
16 from the administration of Governor Frank White in
17 1981 and 1982 to the administration of Governor Bill
18 Clinton that began in 1983?

19 A Not that I recall. You know, when we hired
20 Michael Drake, we would have been aggressively trying
21 to form our underwriting department, gone after bond
22 issues. But to say that there was a change in

1 policy, I don't know of any change in policy except
2 we were aggressively out there trying to drum up
3 business. Does that answer your question?

4 Q Did the Clinton Administration have a
5 policy of including a greater number of Arkansas
6 firms in state bond issues?

7 A I recall that there was discussions in that
8 regard, yes, to try to include Arkansas firms in
9 Arkansas business. I don't recall that with the
10 Governor, but I recall that being talked about.

11 Q Did you think that that would help Collins,
12 Locke & Lasater win a share of the state bond
13 underwriting business?

14 A I don't really know whether it would or
15 not. If we were given the right to at least bid,
16 provided the bonds didn't go down the next day --
17 which can happen, believe me -- I guess it could have
18 helped us.

19 I think there was -- I recall some
20 conversations about, Arkansas bonds, we would like
21 some Arkansas firms to participate. That was a
22 general -- I don't recall, as I say, talking with the

1 Governor about that. But that was a general trend to
2 bring in Arkansas firms to bid on Arkansas bonds.

3 I guess that could have helped us. I don't
4 recall it specifically helping us, but maybe it did.
5 It seems like I'm beating around the bush, but I
6 don't know what to say.

7 Q Did you have any reason to think that
8 Collins, Locke & Lasater would win a share of state
9 bond underwriting business based on anything other
10 than the quality of its bids?

11 A No, sir.

12 Q Did the share of Arkansas state bond
13 underwriting business held by Stephens, Inc. decline
14 after Governor Clinton took office in 1983?

15 A Gosh, I don't know. I really -- I don't
16 know the answer to that question.

17 Q Was Stephens, Inc. excluded from state bond
18 underwriting business after 1983?

19 A No, sir, not that I know of.

20 Q Did Virginia Kelley live in Hot Springs in
21 1983?

22 A I didn't really know. I think I met her,

76

1 again, like once or twice. But I believe she did
2 live in Hot Springs, yes, sir.

3 Q Was she at the Derby Day party at the
4 Arlington Hotel?

5 A I don't recall that, but she loved the
6 horse races. I can remember that. So she very well
7 could have been. She liked going to the horse
8 races.

9 Q Prior to the time you left Collins, Locke &
10 Lasater in June or July of 1983, did Patsy Thomasson
11 move from the Collins, Locke & Lasater payroll to a
12 different payroll?

13 A I don't know.

14 Q Did she transfer to any other -- did she
15 transfer to the payroll of any other companies
16 controlled by Mr. Lasater or by his family?

17 A I don't know.

18 MR. FEUER: I don't have any more questions
19 at this time.

20 MR. O'CALLAGHAN: I just have a couple,
21 Mr. Collins, and hopefully we will be on our way.

22 EXAMINATION

1 BY MR. O'CALLAGHAN:

2 Q During the time you were with the firm,
3 what percentage of your clients were located in the
4 state of Arkansas?

5 A 10, 20 percent. Most of our business was
6 in the secondary market and stuff. Most of the
7 business -- we were doing more business outside the
8 state than inside the state. We tried to do as much
9 business as we could inside the state, but it is kind
10 of a small state.

11 Q Do you recall what your reaction was the
12 first time the firm was named as an underwriter on an
13 AHDA bond offering?

14 A I'm sure I was happy.

15 Q Did you-all have a party or celebrate it in
16 any way?

17 A I probably had a drink. God, I don't
18 remember any specific party, but there could have
19 been one. I just don't remember.

20 Q I was just asking because you said you were
21 making a concerted effort to get some underwriting
22 done.

78

1 A I'm sure we were happy and probably had a
2 drink. I don't remember if we held a party or
3 anything. There were too many parties being held.
4 That was another disagreement that I had.

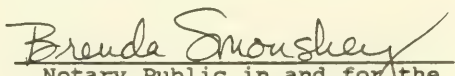
5 MR. O'CALLAGHAN: I have no further
6 questions at this time. Unless Mr. Feuer has some
7 more, I think we are finished for the evening.

8 Thank you for your time.

9 (Whereupon, at 7:50 p.m., the deposition
10 was concluded.)
11
12

13 -----
14 DAVID A. COLLINS
15
16
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I, BRENDA M. SMONSKEY, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires SEPTEMBER 14, 1996

**DEPOSITION OF ROBERT RITTER
IN RE: S. RES. 120**

TUESDAY, APRIL 23, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of ROBERT RITTER, called for examination pursuant to notice of deposition, at 9:05 a.m. in Room 537 of the Dirksen Senate Office Building, before BRENDA M. SMONSKEY, a Notary Public within and for the District of Columbia, when were present:

DOUGLAS R. NAPPI, Esq.

Majority Counsel

GLENN F. IVEY, Esq.

Minority Counsel

LANCE COLE, Esq.

Minority Deputy Special Counsel

U.S. Senate

Committee on Banking, Housing, and Urban Affairs

534 Dirksen Building

Washington, DC 20510

On behalf of the Committee.

CONTENTS

WITNESS	EXAMINATION
Robert Ritter	4
by Mr. Nappi	99
by Mr. Cole	5125
Errata	

P R O C E E D I N G S

1 MR. NAPPI: This deposition is being
2 conducted pursuant to Senate Resolution 120. This
3 resolution establishes a special committee
4 administered by the Banking Committee to conduct an
5 investigation involving Whitewater Development
6 Corporation and other related matters. Section 1(b)
7 of Senate Resolution 120 authorizes investigation and
8 public hearings into, amongst other things, the
9 activities, investments and tax liability of
10 Whitewater Development Corporation, and as related to
11 Whitewater Development Corporation, of its officers,
12 directors and shareholders.

13 You may be requested to testify at public
14 hearings in the future. This deposition is in
15 advance of those public hearings. We will ask a
16 series of questions, you will testify under oath. If
17 you don't understand a question, let me know and I
18 will rephrase. If you need a break, let us know.
19 The stenographer will prepare a record of questions
20 and answers. Depositions will be treated as
21 committee confidential until the commencement of the
22

4

1 hearings.

2 Prior to the hearings, you will receive a
3 letter from the Committee telling you that you may
4 come to the Senate to review the transcript of your
5 deposition and make note of any corrections for
6 transcription on an errata sheet.

7 If you are called to testify at a public
8 hearing, you will be permitted to have a copy of your
9 deposition transcript four days in advance of your
10 testimony. You may be represented by counsel.
11 Objections to the form of questions will be noted for
12 the record. Counsel may object on grounds of
13 privilege or relevance. The Committee Chairman may
14 rule on objections where the witness refuses to
15 answer a question.

16 Please swear in the witness.
17 Whereupon,

18 ROBERT RITTER

19 was called as a witness and, having first been duly
20 sworn, was examined and testified as follows:

21 EXAMINATION

22 BY MR. NAPPI:

1 Q Please state your full name for the
2 record.

3 A Robert Ritter, R-i-t-t-e-r.
4
5

6 Q And your present business address?

7 A Is Community National Bank, 522 Market
8 Street, Metropolis, Illinois 62090, I believe.
9
10
11

12 Q Did you speak to anyone regarding your
13 testimony today?

14 A No. Just I think when -- the first
15 gentleman that called and you and that's basically
16 it.

17 Q Were you ever employed at Citizens Bank of
18 Flippin?

19 A Yes, I was.

20 MR. IVEY: Before I get to that, are you
21 represented by counsel?

22 THE WITNESS: No, I'm not.

1 MR. IVEY: Are you in the room alone right
2 now?

3 THE WITNESS: No, I'm not. My wife is
4 here. Would you prefer her to leave?

5 MR. IVEY: I don't have a preference. I
6 thought we should have whoever is there with you on
7 the record.

8 THE WITNESS: She said she would leave.
9 She just left the room.

10 MR. NAPPI: It is probably best.

11 BY MR. NAPPI:

12 Q Could you state the dates of your
13 employment at Citizens Bank.

14 A I think I can come very close. September
15 15, 1979 until December 31, 1983.

16 Q In what capacity were you employed at
17 Citizens Bank?

18 A President, CEO and director.

19 Q So you were a member of the board of
20 directors?

21 A I believe so.

22 Q Was this your first job in the banking

1 industry?

2 A No, it was not. I had had several years
3 experience prior to this.

4 Q By "several," do you mean two, five?

5 A Closer to 12.

6 Q And had you served as a bank officer
7 previously?

8 A That's correct.

9 Q And as a loan officer?

10 A Yes, sir.

11 Q What was the asset side of the Flippin Bank
12 during your tenure?

13 A Basically \$20 million.

14 Q By "basically," do you mean that it varied
15 around that amount?

16 A It started around 19 million and ended up
17 about 22 while I was there.

18 Q How many loan officers were employed there
19 during your tenure?

20 A At any one time or over a period?

21 Q Over the period from late '79 to late '83.

22 A Hold on just a second, please. Wayne

8

1 Ellis, George Myers, Ron Proctor, Walt Williams, then
2 another part-time individual, Keith, and I can't
3 think of his last name right now. I believe that was
4 it.

5 Q So five individuals?

6 A Right.

7 Q Could you give us those names again. Wayne
8 Ellis, Ron Proctor, a Mr. Williams?

9 A Walter Williams and George Myers.

10 Q And you supervised these loan officers?

11 A Yes, sir.

12 Q During your tenure at Citizens Bank, were
13 you aware that there was a loan outstanding to the
14 Clintons and McDougals?

15 A Yes, sir, I am, I was, and even before
16 then.

17 Q What do you mean by "even before then"?

18 A When I originally met -- just a minute --
19 Frank -- I keep wanting to say Franks, but I think
20 that was his wife's name. One of my predecessors
21 there. It wasn't James --

22 MR. IVEY: Are you thinking of Frank

1 Burge?

2 THE WITNESS: Frank Burge. Yes, he had
3 informed me during a visit that even the governor of
4 Arkansas was one of their customers.

5 BY MR. NAPPI:

6 Q This visit, was it related to a job
7 interview?

8 A Yes, it was.

9 Q What did he say about the governor of
10 Arkansas?

11 A It was just a casual remark, that one of
12 their customers was the governor of Arkansas, nothing
13 more.

14 Q When you came to be employed by Citizens
15 Bank, were you the loan officer directly responsible
16 for management of this loan to the Governor of
17 Arkansas?

18 A I'm trying to remember whether Wayne Ellis
19 was, but I remember dealing on it. Whether it was
20 because Wayne was not able to make something happen
21 or whether I somehow ended up with it by default. I
22 remember, I believe, the loan was past due at the

10

1 time that I arrived, so it would have had immediate
2 attention. I remember working on it early on, yes.

3 Q Okay.

4 A Repeat the question or maybe I missed
5 something.

6 Q No. You raised a couple of issues. I'm
7 just pausing for a moment to think where I'm going to
8 go next.

9 You say early on in your tenure --

10 A I mean basically in September or October.

11 Q Did you come in and review all of the loan
12 files?

13 A I did.

14 Q And was the -- first of all, would it
15 confuse you if I refer to this as the Whitewater
16 loan?

17 A No. There was only one loan there so I
18 know what we are talking about.

19 Q Was the Whitewater loan typical of the
20 bank's lending portfolio?

21 MR. COLE: If you know what "typical"
22 means. I'm not sure that I do.

1 THE WITNESS: Let me describe the typical
2 loan portfolio at Citizens Bank, if that will help.

3 BY MR. NAPPI:

4 Q Sure.

5 A All of the loans were basically demand
6 notes. All of them were at the limit of usury at
7 that time.

8 Q By that you mean 10 percent?

9 A Yes. Basically all of them were at the
10 limit of usury that I remember. The reason that all
11 of them were demand, I can do some conjecture, but on
12 my own, I say it was probably because of the
13 opportunity to renew all of them at the time of the
14 usury changes in Arkansas.

15 So when that would have occurred, and it
16 did, then it was a matter of renewing all those notes
17 at a higher rate.

18 Basically, the whole portfolio looked of
19 that nature, with six-month renewal notes or
20 six-month notes or one-year notes. Many of the
21 people that I talked to at the time when all of that
22 was going on stated that James Patterson had told

12

1 them that they didn't have to make any principal
2 reductions on notes and they only had to pay interest
3 only, because we needed the outstanding loans.

4 Right or wrong, I never did talk to
5 Patterson about it, but basically that's what the
6 portfolio looked like.

7 There were some notes that were due for
8 renewal or had matured and there were also some
9 installment loans where payments were past due.
10 There were some past dues at the time I came in. I
11 reviewed all of the loans basically for my own
12 knowledge, to get a better feel for it.

13 That was the typical type loan.

14 Q So, it was typical as to structure. Did
15 the bank typically make commercial real estate
16 development loans?

17 A Yes.

18 Q Okay.

19 A Even unknowingly, they did.

20 Q What do you mean by that?

21 A I'm sure people borrowed it for other
22 things and it went into a commercial venture. From

1 my opinion, at the onset of my career there, my
2 opinion was that the previous administration was
3 extremely loose in their making of loans, period,
4 regardless of to whom.

5 Q By "previous administration," you mean
6 one --

7 A There was only one. That was James
8 Patterson and Frank Burge.

9 Q Why did you feel that they were extremely
10 loose?

11 A Because of the condition of the files and
12 the type of loans that were made. There was some,
13 potentially, some pretty heavy charge-off in those
14 days, things that had not been repossessed that
15 should have and on and on.

16 Q By "files," you mean they just didn't do
17 proper due diligence on the credit files?

18 A In some cases, as well as records or notes
19 or just making sure that history was recorded and
20 what has taken place and the applications were filled
21 out and what the purpose of the loan was and why it
22 was made in some cases. There were a lot of "good

1 old boy" loans in those days. It might have been
2 that somebody that knew a director or somebody that
3 knew the management.

4 That's my opinion.

5 Q Yes.

6 A Okay?

7 Q In your opinion, was the Whitewater loan
8 one of these "good old boy" loans?

9 A It was not an unusual loan in my opinion,
10 probably as it fit in with all the others.

11 Q What do you mean, "it fit in with all the
12 others"?

13 A It resembled many of the other loans that
14 we had on the books, loan for land, loan for
15 speculation in some cases, the shortness of the notes
16 for renewal purposes, the size or the amount was
17 congruent with other loans that we had in those
18 days.

19 The difference was probably the people
20 involved. They had much more notoriety than the
21 other people we lent to.

22 I treated it like basically any other loan

1 with the exception I walked a little closer to the
2 edge, maybe.

3 Q When you came in, I'm not talking about the
4 way you treated this loan, when you came in, you said
5 you had some concerns about their loan portfolio.
6 You found some loans that you qualified as, in your
7 opinion, "good old boy" loans, and my ultimate
8 question was, was this loan, the Whitewater loan, one
9 of these loans you would have classified as a "good
10 old boy" loan?

11 A It had the same connections as some of the
12 others, as far as that goes. At that time, my
13 thought was not as much a "good old boy" loan as much
14 as it was an investment piece of property. I really
15 didn't view it at that time as a "good old boy" loan
16 because I didn't picture there being a real strong
17 connection to the then governor.

18 MR. COLE: Why is that, Mr. Ritter?

19 THE WITNESS: I guess I just wasn't aware
20 of all of the networking that had gone on behind the
21 building up to this level at that time.

22 BY MR. NAPPI:

16

1 Q What do you mean? You later became aware
2 of some networking that took place?

3 A Later, I became aware that there was more
4 involved to the Whitewater loan than what I had
5 originally envisioned. When I first walked in there,
6 I did not realize that the property had been put
7 together by Chris Wade, if you will.

8 Later on, I found, I believe, that Chris
9 was one of the sellers or arranged to have the
10 property sold or was involved somehow, and probably
11 there were some other properties involved in the same
12 sale. It was a large sale at the time, I believe.

13 Q What did you see of the significance of
14 that?

15 A I didn't think much of it in those days.

16 Q What do you mean, "you didn't think much of
17 it"?

18 A I didn't give it a lot of concern, simply
19 because there was a lot of speculation of property
20 going on in our area at that time. So, it wouldn't
21 have been unusual to find land speculation on the
22 books.

1 There were other properties, maybe even
2 from the same tract of land that we financed, if not
3 very close to it, down on 101 for other people.

4 Q I mean, are you saying that when you did
5 learn about the networking that took place behind the
6 scenes, as you described it, that was not a
7 significant discovery?

8 A No, it really didn't alarm me in any way,
9 shape or form, simply because there were other loans
10 very similar to that where Chris Wade might have been
11 involved in because he was a local realtor and
12 brought us a lot of business in those days. Of
13 course, mind you, I'm looking at that time at all of
14 our board of directors as being very upright
15 citizens, they are all wanting to do well, and try to
16 bring us business and try to be helpful at the same
17 time.

18 So, I guess I just wasn't extremely
19 alarmed. Once I found out that Chris was involved in
20 the land sale, it didn't raise a lot of negative
21 thoughts on my part at that time, mainly because he
22 was involved in so many other projects.

1 What I'm saying is it really didn't click.

2 MR. COLE: I just want to be clear on one
3 thing, Mr. Ritter. This is Lance Cole from the
4 Democratic side.

5 We started down this line of inquiry when
6 you mentioned, and Mr. Nappi asked you about the
7 Governor's involvement in the loan and initially you
8 said you weren't aware of the networking that was
9 involved. As I understood what you said after that,
10 the networking involved Chris Wade, not the Governor;
11 is that correct?

12 THE WITNESS: As far as I was concerned,
13 Chris was an insider, brought us some deals. I don't
14 remember when I became aware that Chris was involved
15 as the realtor of that project.

16 Once I did find out that Chris was the
17 realtor of the project, it didn't alarm me. Am I
18 explaining myself clear enough?

19 MR. COLE: I think I understand what you
20 are saying. I don't know if Mr. Nappi has additional
21 questions.

22 BY MR. NAPPI:

1 Q I'm curious as to why that discovery was of
2 significance. You mentioned it in your testimony,
3 and now you are saying "but it really didn't
4 matter."

5 A It is just one of those things. I wasn't
6 aware of any of the networking that went on putting
7 this loan together. All I knew when I walked in
8 there is I had a loan to the Governor and his wife
9 and another banker and his wife. I never met any of
10 them at that time. But I believe it was past due at
11 the time that I came in. I'm trying to remember
12 back. If it wasn't, we were missing financials.
13 There was something we were missing in September or
14 October that we needed, and I believe it might have
15 been from an August date. I don't even know that for
16 a fact.

17 There was a piece to the loan that we
18 needed, and I remember having to follow up on that,
19 either for the extension agreement or for financial
20 statements or for interest, whatever the purpose
21 was.

22 At that time it was basically another loan,

20

1 only it was to a higher level person than we probably
2 had in the bank as far as politically goes. We had
3 some other people that we had loans to also that were
4 what I consider wealthy individuals, which I would
5 have taken a lot of precaution with, and the same
6 thing with this loan. I took a lot of precaution
7 with it, not to irritate anyone over this loan.

8 So I walked softly, and I probably would
9 have handled it a little bit different than I might
10 have the regular loan that was in the portfolio based
11 on who I was dealing with so as not to irritate not
12 only the Governor at that time, but our board of
13 directors also.

14 Q You say "you walked softly."

15 A Well, I would normally call up someone and
16 say, you know, I really need this as of this date,
17 and I might have done this with these also, except
18 that I would have been a lot more forceful on a
19 normal customer than I would have been with the
20 Governor, and I probably walked a little softer with
21 my tone of voice when I was talking to them or my
22 approach in who I called and how I got the results.

1 But nevertheless, my goal was to get the
2 results.

3 Q Okay. And you said you were --

4 A I just wasn't as forceful doing it.

5 Q One of your concerns was to not irritate
6 the board of directors?

7 A And the Governor, yes.

8 Q Were you told by anyone on the board of
9 directors to handle this loan differently than you
10 might handle other loans?

11 A No, I don't believe so. We eventually
12 became concerned over the loan, and I don't remember
13 exactly when that was. But somewhere along the line
14 when we kept running past due, I think basically all
15 of the directors -- I can't speak for them, but the
16 way that I feel they thought was basically they would
17 rather have the loan than have somebody else have
18 it.

19 Q What do you mean someone else have it?

20 A Let it be at another bank someplace.

21 Q If we could backtrack. You say when you
22 first came to the bank --

22

1 A Uh-huh.

2 Q -- Wayne Ellis was unable to make something
3 happen on the file, I think is the language you
4 used.

5 A Yes.

6 Q What were you getting at there?

7 A There were items that, as I said, that were
8 probably needed or unfinished on the loan that maybe
9 Frank Burge had set up. It was a matter of
10 follow-up. For whatever reason, Wayne -- I don't
11 believe Wayne was able to achieve the goal of
12 bringing those in. I probably ended up with the file
13 because of that, because I remember dealing with this
14 early on in my career.

15 Q Are you talking about documentation for the
16 credit file?

17 A Probably, or just follow-up in bringing
18 things in that were outstanding.

19 Q Interest payments and principal payments?

20 A Could be.

21 Q Why was he unable to make it happen?

22 A Well, Wayne was not a very forceful person

1 to start with.

2 MR. COLE: Do you know who he was dealing
3 with, Mr. Ritter?

4 THE WITNESS: No, I don't remember even if
5 he was for sure. I'm just trying to remember back.
6 But I remember dealing with it early on. I remember
7 Wayne being the senior lender at that time. As to
8 why I ended up with it, I believe it is because Wayne
9 was unable to do something with it.

10 MR. COLE: One thing that would be helpful
11 to me in this deposition, I know you regarded this as
12 one loan with one set of borrowers, but when you
13 refer to dealing with them or dealing with the
14 borrowers, if you could be as specific as you can,
15 whether that means the McDougals, the Clintons or
16 Mr. Wade acting on their behalf.

17 I think that would help us in terms of our
18 record here.

19 MR. NAPPI: Or anyone else you may have
20 dealt with.

21 THE WITNESS: I will try to do that.

22 BY MR. NAPPI:

1 Q You also said the loan needed your
2 immediate attention.

3 A Along with some others. But this one in
4 this particular case needed some attention at the
5 initial start, because it would have become an item
6 either on an examination or it became a reportable
7 item to the Board at a particular time. So, it would
8 have been one of my concerns. I wasn't concerned
9 mainly about loans that were up-to-date and
10 everything was paid. I didn't spend a lot of time on
11 those.

12 Q In your professional opinion, had the prior
13 administration done a good job of administering this
14 loan?

15 A In my opinion? I guess, as I remember
16 back, I probably thought to myself at that time that
17 maybe they went a little strong.

18 Q What do you mean, "went a little strong"?

19 A Probably a little strong on the advance of
20 the funds versus the purchase total and stuff like
21 that. As far as the lendable amount versus the
22 collateral value or purchase price.

1 Q So, you think they may have loaned too much
2 based on the value of the underlying collateral?

3 A Well, yes, and not only this loan but some
4 others. Basically, I guess I was a little more
5 conservative than they were. I let that be and
6 didn't spend a lot of time thinking about it. All I
7 knew is I had a loan I had to collect or do something
8 with before it is all said and done. I didn't spend
9 a lot of time going back and saying, gee, why did
10 they make this loan to start with or who was involved
11 or what is the deal total. I didn't get into all
12 that.

13 MR. COLE: I'm a little confused,
14 Mr. Ritter. This loan was a 90 percent loan
15 ratio-to-purchase price loan by your bank; is that
16 correct?

17 THE WITNESS: What I understand or
18 thereabouts.

19 MR. COLE: Was that an unusual lending
20 ratio at that time?

21 THE WITNESS: Not for that bank. It would
22 have been for me. 80 percent on speculative land,

26

1 might even have been 50 percent.

2 MR. COLE: What I'm focusing on, and I
3 think what everyone who is interested in this
4 Whitewater loan is focusing on is whether this loan
5 was treated differently than other loans by the bank
6 at the time.

7 THE WITNESS: No. What I'm saying is I
8 don't believe it was.

9 MR. COLE: Your response to Mr. Nappi's
10 question, if read out of context, could be read
11 otherwise, when you said they went a little strong on
12 this loan.

13 THE WITNESS: Yes.

14 BY MR. NAPPI:

15 Q Returning to this loan, and correct me if
16 I'm wrong, your concern with this loan was that there
17 might not be sufficient collateral to support the
18 loan amount?

19 A No, I don't think that -- let me think back
20 for just a minute.

21 Q Take your time.

22 A The proper way I can phrase this, my

1 concern for this loan, as well as a lot of other
2 loans, was there was a lot more loan-to-value than
3 what I was used to. That's part one. Part two of my
4 concern with this loan initially was there was action
5 that needed to be taken. I didn't spend a lot of
6 time thinking back any further than that other than
7 this is a block of land and what happens if. I went
8 through all those scenarios, and the fact that it was
9 a speculative land investment had me somewhat more
10 alarmed than it would have anyone else in that whole
11 bank.

12 The only reason for it -- and it wasn't
13 this loan only, it was others also.

14 Q Your concern was the 90 percent value ratio
15 that was used?

16 A Yes, for this loan and others, too.

17 Q So, what you are saying -- so, it was not
18 the value or the appraisal of the Whitewater
19 property?

20 A I don't remember on that one about the
21 appraisal part. In general, I didn't trust
22 appraisals.

1 Q Trust appraisals at that bank or in
2 general?

3 MR. COLE: That goes without saying. You
4 are a banker, Mr. Ritter. Sorry. Having borrowed to
5 try to buy a house, I couldn't resist.

6 THE WITNESS: In those days, appraisals
7 came up approximately to the price that one needed.

8 BY MR. NAPPI:

9 Q Did you ever seek a reappraisal of the
10 Whitewater property?

11 A I don't remember. I do remember looking at
12 it, but I don't remember whether we ordered another
13 appraisal at any time.

14 Q Again, we are focusing on the fall of '79.

15 A Okay.

16 Q There were some concerns about how the file
17 had been maintained, I take it?

18 A Yes.

19 Q You were concerned about some of the
20 lending policies of the bank?

21 A Yes.

22 Q You were concerned about this being an item

1 in an examination?

2 A That's correct.

3 Q How did you classify this loan, again, the
4 Whitewater loan?

5 A I don't think that we classified them in
6 that category in those days. We might have had an
7 exam either just prior to me getting there or just
8 shortly after I got there, and the exam might have
9 pointed this out at that time, but it might not have,
10 I don't remember. In either regard, we didn't
11 classify them in the way that we classify them today.

12 Q How did you classify them?

13 A I'm not sure we did. I don't remember
14 giving this a rating per se in those days. It
15 wasn't -- that wasn't one of the buzz words of
16 regulators in those days. It was either substandard
17 or it was a loss or it was above substandard, and I
18 think we considered this one above substandard.

19 I don't remember exactly the categorization
20 that was given to this all the way through, but I
21 don't believe when I walked into that bank, that
22 there was a classification given to it other than if

1 it was on an exam, I might have seen what the
2 classification on the exam was and reacted
3 accordingly, but I don't remember that.

4 Q Were you regarding the failure to pay down
5 principal or to have paid down any principal?

6 A Yes, I was, but that was me in general. We
7 had a lot of loans that were not paying any principal
8 in those days, simply because of the past precedent
9 as I described.

10 In particular, I don't know if you want to
11 get into this subject now, but it had to do with the
12 sale of land. There should be a principal reduction
13 on all loans in my opinion, and this was one that
14 needed that also, and it wasn't getting it, if I
15 remember right, early on. But it might have early on
16 and then later, we had to just collect interest only
17 for a while. I believe there was even a request for
18 additional funds, about \$20,000 worth or something,
19 at a later date.

20 Q The records we have indicate that as late
21 as August of 1980, there had been no pay down of
22 principal.

1 A That would make sense to me.

2 Q And that's almost a year after you joined
3 the bank and they still have not begun to pay down
4 principal.

5 A Right.

6 Q Was this a matter of concern?

7 A I'm sure it was. Because in that early
8 time, and I don't remember exactly when, I found out
9 that there were land sales going on on that property
10 and they would have been sold under contract, and I
11 became alarmed when we weren't getting any of the
12 moneys from those sales, for one thing. Two, that
13 there was nothing being put into escrow in the way of
14 warranty deeds, and three, we had not agreed to
15 release any land on a particular basis that I
16 remember.

17 Usually when you do something like that,
18 you go in and say we will take 90 percent of
19 everything that you sell and apply it against the
20 note, leaving the 10 percent for development costs or
21 something of that nature. But there didn't seem to
22 be anything to cover that. My concern was when one

1 finishes paying off their -- I am trying to think of
2 the word for it -- it is a contract for deed -- how
3 does one of the buyers get a release of enough land
4 out of the bank to get a clear deed or clear title to
5 the property that they are buying?

6 And that, by the way, was not just on this
7 note. That was a matter of practice in Arkansas, or
8 at least in our area up there.

9 Q So, you are talking about the installment
10 sales?

11 A Yes. Well, yes. I would come in and buy a
12 piece of property from someone and it might be two
13 acres and they might have a mortgage against 20 acres
14 or 100 acres. That person and I worked this out, I
15 not being very astute, would not know enough to ask
16 that a release of deed and warranty deed be placed in
17 an escrow contract someplace that when I get done
18 paying it, it comes to me automatically.

19 MR. COLE: Who was handling those lot
20 sales, if you came to know that?

21 THE WITNESS: There were several. Nancy
22 Watts, Chris Wade, one of -- let me think who else

1 here.

2 MR. COLE: By those lot sales, I'm
3 referring specifically obviously to the Whitewater
4 lots.

5 THE WITNESS: I am, too.

6 BY MR. NAPPI:

7 Q If I may add, what time period are we
8 talking about right now, '79 through '80?

9 A Around 1980 or so.

10 Q You said you became aware of sales. Were
11 these installment sales contracts or more typically
12 mortgage financing sales or mortgage financed?

13 A They would be on the sale of a piece of
14 real estate out of the total parcel that we had
15 financed on contract for deed to a buyer, and that
16 would be an installment-type sale. But the property
17 that they expect to get on the installment when they
18 are done is real estate --

19 Q Yes.

20 A -- if I'm explaining that clearly enough.

21 Q I understand.

22 What about that style of financing, the

34

1 installment sales financing of real estate
2 purchases --

3 A That would have been normal in our area at
4 that time, mainly because of the education level of
5 the buyer.

6 Q I'm not sure I see the connection.

7 A Not the education level. Maybe the
8 astuteness of dealing with real estate of the buyer.

9 MR. COLE: It didn't have anything to do
10 with the reluctance of banks to make loans, did it?

11 THE WITNESS: It might have. We had a
12 limited 10 percent usury. We weren't interested in
13 making any loans.

14 MR. IVEY: You should know that Mr. Cole is
15 from Arkansas.

16 MR. NAPPI: Hence his populist streak.

17 THE WITNESS: My mother lives in Arkansas.
18 I like Arkansas. Don't get me wrong. I'm just
19 saying that was typical in those days. We actually
20 basically shut off loans until usury got changed.

21 BY MR. NAPPI:

22 Q When did the usury limit get lifted? That

1 was in 1980?

2 A It might have been '80 or '81. I don't
3 remember.

4 Q It was when the federal law was changed to
5 allow --

6 A Yes. It might have been 1980.

7 MR. COLE: On the usury point, Mr. Ritter,
8 during the period up until the limit was lifted, your
9 bank there was working with the borrowers that you
10 had in your portfolio in terms of charging them the
11 maximum amount of interest allowed by law and often
12 not requiring principal reductions; is that what you
13 testified to earlier?

14 THE WITNESS: Yes, that's correct. I
15 started changing that and became very unpopular.

16 MR. COLE: I can imagine.

17 BY MR. NAPPI:

18 Q What about that means of financing? Did
19 you see any potential problems for this Whitewater
20 real estate development?

21 A I believe I did at that time. My major
22 concern, of course, was for the bank, and my concern

1 was what happens when one finishes paying their
2 contract and how does the bank fit into all this when
3 the buyer of the property expects title and can't get
4 it because there is still a lien against the
5 property.

6 Q Were you concerned that under this
7 installment financing procedure, the bank's capital
8 would be tied into the loan for an extended period of
9 time?

10 A The way this was going, it seemed to be,
11 yes.

12 Q This was a fairly significant loan for a
13 bank of your size?

14 A That would be also correct.

15 Q Would you say it was a serious concern?

16 A Let me think. I don't know that we were
17 concerned as to serious. We had some other things
18 that we felt were more serious that we felt had to be
19 dealt with. Was I concerned? Yes, because I felt we
20 needed some debt reduction. By the same token, and I
21 would have to refer to my notes in the file, but I
22 believe there were reasons given as to why they

1 couldn't.

2 The other practice was, for most of the
3 banks in that area, was basically to collect their
4 interest and renew it and eventually expect the
5 repayment from the sales of properties, and that
6 concerned me because of the sales being on contract
7 and us not receiving any of the funds from those
8 sales.

9 Q You keep coming back to that. How did you
10 discover that there were sales under contract and you
11 were not receiving proceeds?

12 A I don't remember.

13 Q Did you take steps to correct that, like
14 establishing a different protocol for escrow?

15 A Well, see, we had no control over that,
16 because we wouldn't have been privy to all those
17 sales. I'm trying to remember how I -- I don't
18 remember how I knew that there were sales going on
19 other than maybe Chris Wade had brought us
20 potentially a couple of customers or Nancy Watts or
21 somebody may have mentioned something about sales or
22 there may have been -- I just don't remember. I

38

1 really don't remember, honestly.

2 But I do know that there were sales going
3 on, for whatever reason. If I was back there at that
4 time, I could probably tell you why, but I can't tell
5 you now.

6 Q Do you have any of your files, any files,
7 any records?

8 A No, I do not. I took nothing from Citizens
9 with me.

10 Q Do you recall when the 10 percent usury
11 limit on bank loans was lifted?

12 A I do, but not the date.

13 Q I'm not asking --

14 A I remember the event, yes.

15 Q I'm asking you to direct your attention to
16 that time.

17 A All right.

18 Q After the limit was raised, the interest
19 rate that the bank charged the partners in Whitewater
20 for their loan increased significantly.

21 A Yes.

22 Q You recall that?

1 A Yes, because I believe I made that loan
2 renewal, I believe.

3 Q Okay. When that occurred, was there any
4 concern that the real estate development would not
5 throw off a sufficient income stream to pay down the
6 interest that was compounding?

7 A Yes, we had that across the board in many
8 cases, not only this one but others.

9 Q But still we are focusing on this one. Was
10 that a concern?

11 A Of course.

12 Q What was done to address that concern?

13 A I believe that we requested some be put
14 into payments, but I don't remember. I don't
15 remember. I think we were always pushing for
16 payments but we were having a hard time just getting
17 the interest.

18 Q Who were you pushing for payments?

19 A Mostly Jim McDougal or Susan.

20 Q When you say "mostly Jim McDougal or
21 Susan," was there one of the McDougals you dealt with
22 more frequently than the other?

40

1 A I dealt with Jim quite a bit, because he
2 was a fellow banker. I would pick up the phone and
3 reach him at the bank. I didn't have to chase
4 anybody else down.

5 Q Did you know Jim McDougal before joining
6 Citizens?

7 A No, I did not.

8 Q Did you ever have any dealings with then
9 Governor Clinton regarding this loan?

10 A Yes.

11 Q Do you recall the circumstances around
12 that?

13 A I do one of them for sure. The other one
14 I'm a little fuzzy on. I believe there were two
15 times.

16 One was on a renewal of a note that we
17 needed done and we were lacking his signature. He
18 happened to be up in our area for a cocktail party --
19 I can't remember what the event was. I don't
20 remember the event, but it was at the telephone
21 company. He was there and we knew he was coming, and
22 it was prearranged that we would get together and he

1 would sign the extension agreement or give me a
2 financial statement and sign the extension
3 agreement -- I don't remember how that worked
4 exactly.

5 But it was in the telephone company, and he
6 signed the extension agreement or note in the
7 computer room on top of a printer.

8 The other time, I think we met in Yellville
9 another time, and whether it was just a brief
10 discussion I just don't remember, but it was not --
11 it was nothing of major significance that I would
12 have remembered other than that. Another time at
13 another event we briefly talked.

14 Q Did you talk about the loan?

15 A We talked about the loan, that I just
16 really need to have a particular thing, whatever it
17 was. Most of the time where we would be in proximity
18 to him, there was usually something we seemed to be
19 needing.

20 Q What do you mean, something you needed?

21 A Well, to finish the file. The basic
22 contact was with Jim McDougal and if I needed

1 something, I would call Jim and say I need Mr. and
2 Mrs. Clinton's financial statement, Jim, I am missing
3 that, I need yours, Jim, I need some interest, we
4 need to talk about how this is going to be reduced,
5 things of that nature.

6 Then he would try to get them and we might
7 be lacking one item to finish up the file for
8 documentation purposes, and I might have said,
9 Governor, you know, I really need that financial
10 statement of yours when we were together, like in
11 Yellville. I believe he was up there -- he wasn't
12 even governor at that time, I believe.

13 Q So, was this during the time period after
14 he lost to Frank White?

15 A Frank White, right.

16 Q The other meeting at the telephone company
17 was prior to the Yellville meeting?

18 A I don't remember, I don't remember. I
19 don't even remember the event. I know we were all
20 together. I don't remember why.

21 Q Who was all together?

22 A There was a group of people, and it might

1 have been the grand opening of the telephone company
2 they remodeled, and that might have been the reason.
3 But all of our directors and a lot of dignitaries
4 were there, including the Governor. Most of our bank
5 staff was there at the same time.

6 The telephone company had remodeled. That
7 might have been the event. I don't remember. I
8 believe he was there for that also.

9 Q You say that this was prearranged, that you
10 would obtain whatever you needed from the Governor.

11 A Right.

12 Q Who did you make these arrangements
13 through?

14 A I believe through Jim McDougal.

15 Q You have made a couple of references to
16 needing financial statements from the Clintons. Do
17 you recall whether that was a problem during your
18 management of this loan?

19 A It was always a hard thing to get, to
20 finish up the documentation on things with this
21 loan. It was also complicated by the fact of who was
22 probably involved, but nevertheless, there were four

1 signatures we always needed, and there were two sets
2 of financial statements at least that we needed. We
3 needed to have a multitude of documents signed. So,
4 when we would try to get all this done, it became not
5 a problem but it became a time period over a period
6 of time that we were trying to get these documents
7 back in. Usually we would get them back in
8 piecemeal.

9 So, we might get one of the financial
10 statements in today and then I might be trying for
11 the next three weeks to get the other one back in, or
12 an extension back. A lot of times -- I remember the
13 extensions taking a long time, and I attributed it to
14 the fact that someone needed to come up with some
15 money to pay the interest.

16 This was not a slam-dunk when it came to
17 getting everything done the way it was supposed to be
18 done.

19 Q You say you attributed it to having trouble
20 raising money for the interest.

21 A Because at the same time, somewhere in
22 there Jim McDougal had requested an additional amount

1 of money, either directly through me or through Chris
2 Wade. They seemed to be having a problem coming up
3 with the interest.

4 So, in order to extend the loan, we needed
5 not only the paperwork but we needed the interest
6 paid to date.

7 Q All right. You said something to the
8 effect of this loan was not a slam-dunk as far as
9 getting things done the way they had to be done.

10 A Right.

11 Q I think we have discussed the need to get
12 interest payments. What else about this loan made it
13 more of a perimeter shot and not a slam-dunk?

14 MR. IVEY: In honor of the start of the NBA
15 playoffs, I guess.

16 THE WITNESS: Right. I'm back to my
17 statement about there is two sets of financials and a
18 multitude of signatures on documents that need to be
19 signed versus a regular loan where you sit down and
20 get all of those at one time.

21 BY MR. NAPPI:

22 Q Was there hesitance to provide financial

1 statements by the borrowers?

2 A I think that was -- let me try to see if I
3 can describe this well. There was never a hesitance
4 when I would call. It took forever to get them.

5 In other words, it would be like me asking
6 you, Mr. Nappi, would you provide me with your
7 financial statement, you saying yes, and then three
8 weeks later, Mr. Nappi, where is that financial
9 statement?

10 Q Was it easier to obtain the financial
11 statements from the McDougals than the Clintons?

12 A I believe so, because I remember on the
13 financial statements, it was carried around
14 supposedly in a coat pocket for a while, it had been
15 folded well. I don't remember what year that was,
16 but I remember finally getting it. I think I got
17 that one in person now. That was from the Clintons.

18 McDougal usually sent his financial
19 statement in -- I don't remember now. I can't answer
20 you on that. I remember several times needing
21 financial statements from either one or both parties,
22 but I can't identify the dates and times and all

1 that.

2 Q Any financial statements you obtained,
3 would they have been placed in the credit file?

4 A That's correct.

5 Q So, they would still be maintained in the
6 bank's credit files --

7 A That's correct.

8 Q -- as well as all other documentation that
9 you would have on this type of loan?

10 A I presume so.

11 Q I guess you can only testify as to your
12 practices. But you would have maintained a complete
13 credit file to the extent that you had the
14 documentation you needed?

15 A Right. Probably there would have been a
16 comment sheet on the front left-hand side of the file
17 folder that would have had a chronological order of
18 activity.

19 Q What about Mrs. Clinton? Did you have
20 dealings with her with respect to this loan?

21 A She and Mrs. McDougal both were my very
22 first contact on this loan, I believe, unless I had

1 met Jim McDougal just briefly before that. But
2 either way, the three of them I met, Jim McDougal and
3 Mrs. Clinton and Susan McDougal. I refer to
4 Mrs. Clinton. She used Rodham, I believe, at that
5 time.

6 But the three of those, early on in my
7 career, I met. I believe it was to finish up part of
8 what was needed to be done on that loan for renewal
9 or extension or whatever. I believe my memory takes
10 me that Jim McDougal may have come in separate,
11 either before or after all that, and the two ladies
12 came in by themselves. Now, maybe Jim came with
13 them, I'm not sure, but I do remember dealing with
14 both of the ladies.

15 Q You are certain that Hillary Rodham Clinton
16 and Susan McDougal came to meet with you regarding a
17 loan extension?

18 A That's correct, at the bank.

19 Q So, they came to the bank?

20 A Right.

21 Q Do you recall when this was?

22 A It was early, because I was in the middle

1 office of the bank at Flippin, and later on I
2 moved -- if you were to look at the offices, I was on
3 the left-hand side, and later on I moved to the
4 right-hand office and then later on we built another
5 office.

6 So it would have been early in my career.

7 Q When was the new office built?

8 A Around 1982, the end of '82 or so.

9 Q So it would have been before the end of
10 '82?

11 A This would have been back around '79 or the
12 early part of '80 that I'm talking about.

13 Q Who set up this meeting?

14 A I believe I might have called and asked
15 them to come in and we needed some signatures on some
16 documents, and may have made an exception that I
17 would let the Governor sign these documents and let
18 them bring them in and then the three of them had to
19 sign in the office at one time or another.

20 Q Who did you call? Who did you make the
21 initial contact with?

22 A I don't remember. I would guess it was Jim

1 McDougal, but I don't remember.

2 Q Was it difficult arranging for the parties,
3 Mrs. Clinton and the McDougals to get up to Flippin?

4 A Without a doubt. They were going three
5 separate ways, I believe.

6 Q Do you recall the time that passed between
7 you making an initial contact about the need to have
8 a meeting and the meeting actually occurring?

9 A I really don't.

10 Q Okay. Why did you feel you needed an
11 in-person meeting?

12 A Well, I needed to see the signatures being
13 made, and I think in those days, if one would have
14 allowed some signatures to be done off premises, it
15 could have constituted some branch banking which was
16 probably not allowed out of the particular area.

17 I think I was concerned and I just wanted
18 to see the instruments be signed in person rather
19 than have somebody take them someplace else. That
20 would have been for everybody that had a loan with
21 us, not just this group.

22 It was just a practice I had. That's the

1 best way to say it.

2 Q Can you walk us through the meeting, what
3 occurred?

4 A I believe at that meeting it was just some
5 greetings and then getting right to the documents
6 that needed to be done. There might have been a
7 discussion as to future pay down, but I don't
8 remember.

9 Q What do you mean, a discussion about future
10 pay down?

11 A What is going to happen to the principal,
12 the long-range plans.

13 Q You made inquiry about a business plan?

14 A That would have been normal. I can't
15 picture me not doing it with them, too.

16 Q Did you ask them about what they saw as to
17 where they expected to get the source of proceeds to
18 make interest and principal payments?

19 A I don't think I did at that time, that
20 early meeting. I assumed that they had the
21 wherewithal, and I guess I was mainly in those days
22 thinking that the deep pockets were McDougal's and

52

1 probably not the Clintons.

2 (Recess.)

3 BY MR. NAPPI:

4 Q When we went off the record, we were
5 talking about the initial meeting at the bank of
6 Flippin regarding loan renewal or a meeting involving
7 at least Hillary Rodham Clinton and Susan McDougal.

8 A That's correct.

9 Q Do you recall how long this meeting lasted?

10 A Maybe a half hour at the most, I believe,
11 but I don't recall exactly, no. It was a short
12 meeting, because I would have had things prepared
13 already, so it wouldn't be a long-time thing.

14 Q Do you recall who spoke during the meeting?

15 A Well, between the two ladies, I think it
16 was probably an equal exchange. I probably led the
17 direction of the conversation.

18 Q Did both ladies appear to be knowledgeable
19 about the loan, about the real estate deal?

20 A They seemed to be, and they seemed to be
21 knowledgeable about the interest rate and everything
22 else.

1 Q Do you recall any specifics that leads you
2 to feel that they were knowledgeable?

3 A Well, either the initial meeting or
4 possibly at a later date, and that's a number of
5 years back, so it is kind of a stretch on this, but
6 to my recollection, one of the meetings that we were
7 at, and I believe it was just Mrs. McDougal and
8 Mrs. Clinton at that time were there, and we had a
9 renewal to make, and I believe it was after usury had
10 been changed.

11 If I'm not mistaken -- and I'm going by --
12 I believe those notes came due around August of each
13 year or something like that or every six months. I
14 don't remember if it was one year or every six
15 months. It would have been after usury had changed.
16 I believe I increased the rate of that note up to
17 around 19 percent or 17 percent or something like
18 that. I don't remember what it was exactly. I
19 remember the discussion that ensued because of that,
20 and both of them very well understood what it meant
21 to go from 10 percent to 15 or 18 or 19 at that
22 time.

1 There was a discussion as to why do we have
2 to pay that much interest.

3 Q Again, let's focus on this initial meeting
4 with Mrs. Clinton and Mrs. McDougal.

5 A Okay.

6 Q Did they seem to understand the business
7 plan for this real estate development?

8 A I really don't remember.

9 Q Were there subsequent meetings with
10 Mrs. Clinton?

11 A I believe at least one more. I don't
12 remember any more than one more.

13 Q Do you recall the specifics?

14 A It was to renew the note.

15 Q So, the second meeting was also for a
16 renewal?

17 A Yes.

18 Q And who was at this meeting?

19 A I believe that was Mrs. McDougal and
20 Mrs. Clinton.

21 Q You believe it was just the two of them?

22 A Just the two, because I remember them

1 sitting on the edge of my desk when I walked into my
2 office.

3 Q And do you recall when this meeting took
4 place?

5 A Not exactly.

6 Q Would it have been the next loan extension?

7 A I believe so. Here again, I was still in
8 that same office, and whether I made the original --
9 the very first time that they came in, I believe it
10 was to finish up something that someone else had
11 started, like Frank Burge, where we needed some
12 signatures.

13 The second time -- and that would have been
14 like from August of '79, some issue that that took
15 place that would have still been undone in
16 September.

17 The next time I believe was probably a year
18 later that I remember, around August of '80 or
19 September of '80 or somewhere in there, when they had
20 come in. I believe Jim McDougal either came in
21 before them or after them, separate from the two of
22 them.

1 Q Yes.

2 A He could have been there, too. I don't
3 remember.

4 Q This meeting took place at your office in
5 the Flippin Bank?

6 A Yes.

7 Q Could you walk us through what you recall
8 of this meeting?

9 A The only thing I can really remember
10 honestly is the discussion regarding the interest
11 rate, some cordialities and getting the documents
12 signed. I don't remember much more than that.

13 Q If this was 1980, the records we have
14 available indicate there had been no pay down of
15 principal by this point in time, by the 1980
16 extension.

17 A That I believe also.

18 Q Do you recall any discussions about this?

19 A I'm sure there were, but I don't remember
20 what they were.

21 Q Do you recall anything regarding the loan
22 that Mrs. Clinton said?

1 A The one thing she did say was that it seems
2 like -- I believe this was the time that the interest
3 usury rate had been lifted, and I remember the
4 comment that she felt the interest was extremely high
5 after all the work that was done to get the usury
6 limit changed.

7 Q What did she mean by that, all the work
8 that had been done to get the usury limit changed?

9 A By the state and everyone else involved,
10 trying to help the bankers get the usury limit
11 changed and then we immediately bounce up to that
12 level.

13 MR. IVEY: No good deed goes unpunished.

14 THE WITNESS: I remember a discussion about
15 that, because it is just one of the humorous things
16 you remember.

17 BY MR. NAPPI:

18 Q Did Mrs. Clinton seem more knowledgeable
19 about real estate financing than Mrs. McDougal?

20 A I thought they were both pretty sharp. I
21 didn't take either one of them for fools, and I felt
22 that they were both fairly knowledgeable about real

1 estate and the transactions, and I also didn't even
2 realize at that time that Mrs. Clinton was an
3 attorney, but now hearing all that, I guess I just
4 didn't even think about her being an attorney.

5 But they were both very knowledgeable on
6 real estate, in my opinion. Susan seemed to be a
7 little bit more knowledgeable as to the Whitewater
8 Development than Mrs. Clinton, maybe, if I remember
9 right, because she seemed to have more of the
10 specifics as to what was actually going on.

11 Q This loan was the subject of a
12 participation, was it not?

13 A You know, I don't remember. I believe it
14 was, but I don't remember. It would be in the file.

15 Q Okay.

16 Do you recall that the Union National
17 Bank --

18 A Yes.

19 Q -- had a participation in this loan?

20 A Yes, now that you mention it.

21 Q Do you recall who you dealt with at the
22 Union National Bank regarding this participation?

1 A I remember being in his office and I can't
2 think of his name right now. Peter Pietz and I went
3 down to visit him and asked if there was any -- how
4 did we put it? We asked if there was anything owed
5 to them in our relationship that doesn't seem to be
6 on paper anywhere, and we were talking more in
7 general, not just to this loan.

8 The name is not coming to me.

9 MR. IVEY: What do you mean by
10 "anything" --

11 THE WITNESS: This would have been fairly
12 early in my career there. I wanted to know what
13 obligations that we had on participation loans, such
14 as whether we were first in, last out, and that type
15 thing.

16 Documentation showed one thing, but
17 sometimes there were unspoken, if you will, code of
18 the hills-type things that may be in writing one way
19 but expected to be performed a different way when it
20 came time.

21 BY MR. NAPPI:

22 Q Why did you have reason to believe there

60

1 might be some kind of nonwritten agreement regarding
2 this loan?

3 A Typical banking.

4 MR. COLE: I don't believe he said as to
5 this loan. I believe he said in general.

6 THE WITNESS: In general. It wasn't just
7 to this loan.

8 I really don't remember precisely whether
9 Union Bank had this participation. They had most of
10 our participations at that time.

11 BY MR. NAPPI:

12 Q So, they were a fairly significant
13 correspondent bank?

14 A They were.

15 Q What was the arrangement, the correspondent
16 arrangement with you and Union Bank?

17 A I was told there were no ties other than
18 what was in writing. That's the way we took it to
19 mean.

20 Q Did the bank of Flippin have a discount
21 committee?

22 A Yes, it did.

1 Q What was the role of the discount
2 committee?

3 A It was pretty much most of the board. The
4 role of the discount committee was to approve loans
5 and to talk about past dues and plans of action, to
6 set policy and procedures.

7 Q Policy and procedures with respect to
8 past-due loans?

9 A And the making of loans.

10 Q Do you recall any meetings of the discount
11 committee where the Whitewater loan was raised by
12 yourself?

13 A Not in particular, but it could have been.
14 I just don't remember. I'm sure that there was
15 discussion made regarding it; I just can't remember
16 it. The best way to put it, in general, I'm sure
17 that we discussed it because it was an item that
18 would have been discussed. As to particular times
19 and what was discussed exactly, I can't tell you.

20 Q I'm not sure I follow you.

21 A Well, I remember this loan being
22 discussed. When it was discussed or what was said is

62

1 a different story. We would have discussed this loan
2 more than once, and I remember also running this
3 history of this loan by at least two different
4 people. One would be Peter Pietz and the other would
5 be Guy Alexander. We may or may not -- I'm sure we
6 talked to Chris Wade about it at one time or another
7 and also Sanders.

8 Q Why are you certain that this loan would
9 have been run by the discount committee?

10 A Because when it is past due, it gets
11 there. And it would have been past due during one of
12 those times and it would have been reported to them.

13 I also remember in general talking several
14 times about this loan and the workout plan that
15 should or should not be put in place and that type of
16 thing.

17 Q Do you recall what kind of workout plan you
18 had for the loan?

19 A Not offhand, not now.

20 Q Do you recall anyone on the board of
21 directors being hesitant to push too aggressively on
22 this loan with respect to a workout plan?

1 A There might have been one or two, but in
2 general I think most of them supported my views.

3 Q Do you recall who these one or two people
4 were?

5 A Not exactly. I could sure guess, but not
6 exactly.

7 MR. COLE: Did Mr. Wade participate in
8 discussions about this loan as a director?

9 THE WITNESS: Yes, he did, yes.

10 BY MR. NAPPI:

11 Q Was he a director during your entire
12 tenure?

13 A No.

14 Q What time periods?

15 A From when I got there, and then I bought
16 out all of his stock sometime in around beginning of
17 1983 or mid-'83 to get his board seat back.

18 Q You personally bought it out or you had the
19 bank buy it out?

20 A No. I personally did it through support
21 of -- I remember now. This would have happened
22 around mid-1983, and I arranged for a loan through

1 Twin Citibank to buy Chris's shares out. I forget
2 how many dollars I borrowed to do it. There was an
3 agreement that I made with Chris Wade that if for any
4 reason those shares sell for more money -- I don't
5 remember whether the deal with Twin Cities was just
6 then in the works, I think it was -- that if there
7 was more money to be gained by the sale of the stock
8 at a later time, he could have 100 percent of it, I
9 just wanted him off the board.

10 MR. COLE: So when you say -- you are
11 referring to the acquisition of the bank in Flippin
12 by Twin Cities Bank?

13 THE WITNESS: Yes, which happened at the
14 end of 1983.

15 MR. COLE: Your arrangement with Mr. Wade
16 was if Twin Cities purchased the shares at a higher
17 price, that he would share in that increase?

18 THE WITNESS: Right. I would give him 100
19 percent of the increase, minus the interest charges
20 and all that.

21 MR. COLE: Was it contemplated at that time
22 that Twin Cities would acquire or was the bank

1 generally for sale and you didn't know who would be
2 the buyer?

3 THE WITNESS: Once I found out the bank was
4 for sale, I knew the buyer was potentially Twin
5 Cities. I can't tell you when I found that out, but
6 it must have been around July or so, maybe June.

7 BY MR. NAPPI:

8 Q Of '83?

9 A Of '83.

10 Q Okay.

11 A I do have notes on that loan that I took
12 out. So if I had to go back and get those dates, I
13 could get them.

14 Q That is not necessary right now.

15 A Okay.

16 MR. COLE: I did have a reason, though,
17 Mr. Ritter, for asking about Mr. Wade's participation
18 as a director in discussions concerning the
19 Whitewater loan.

20 Was the rest of the board and the bank's
21 officers aware of the role that Mr. Wade had played
22 and was playing as a broker on the Whitewater

1 properties?

2 THE WITNESS: I believe so.

3 BY MR. NAPPI:

4 Q Who was on the board during your tenure?

5 A Guy Alexander, Peter Pietz.

6 Q Could you spell that name?

7 A P-i-e-t-z, I believe.

8 MR. IVEY: P-i-e-t-z?

9 THE WITNESS: It might have been
10 P-e-i-t-z. I think it is P-i-e-t-z.

11 Vada Sheid, S-h-e-i-d, I believe. She was
12 a state senator.

13 MR. NAPPI: BY MR. NAPPI:

14 Q Her first name was?

15 A V-a-d-a, Vada.

16 Q Who else?

17 A Lyle Wood, W-o-o-d.

18 Q You can just keep --

19 A Steve Sanders. Kerm Powers, P-o-w-e-r-s, I
20 believe.

21 Q His first name was Kerm?

22 A Kerm, Kermit. Of course, Chris Wade.

1 MR. COLE: Glenn Johnson?

2 THE WITNESS: Glenn Johnson and myself.

3 BY MR. NAPPI:

4 Q This was during your entire tenure?

5 A Kerm Powers came on after I got there,
6 fairly early, like around 1980 or '81, something like
7 that. And I'm not sure I remember whether there was
8 a board seat open, and there may have been because of
9 Frank Wade -- or Frank Burge leaving.

10 So, maybe when Frank left we brought Kerm
11 on. I don't remember what we did to replace Chris
12 when he left.

13 Q Were all of these directors members of the
14 discount committee?

15 A I don't remember who specifically was.
16 Most of the meetings were Glenn Johnson and Lyle Wood
17 and Peter Pietz, Steve Sanders occasionally,
18 depending on his schedule. Chris Wade was always
19 there and Kerm Powers.

20 Q You mentioned Vada Sheid. Is that the
21 name?

22 A Right.

1 Q She was a state senator?

2 A That's correct.

3 Q Were there any other members of the board
4 who were elected officials?

5 A No. Chris Wade's dad was appointed road
6 commissioner someplace in that. Other than that, I
7 don't know. Let me think about Kerm Powers for a
8 minute. Kerm could have been an elected official in
9 Yellville.

10 Q Were any of them active in politics?

11 A Everybody is active in politics.

12 Q Did any of them hold official positions --

13 A Not that I know of.

14 Q -- in a political party?

15 A Not that I know of.

16 Q You have testified as to your recollection
17 of two meetings with the Governor, or Bill Clinton, I
18 should say, since he wasn't governor during both
19 meetings.

20 A That's correct.

21 Q And two meetings with Mrs. Clinton.

22 A Those are the ones I remember. There could

1 have been more.

2 Q I can only ask you to testify as to your
3 recollection here.

4 Do you recall any written correspondence
5 with the Clintons regarding --

6 A I do.

7 Q Did you write to them directly or did you
8 send -- did Mr. McDougal handle the correspondence?

9 A I really can't recall without seeing some
10 notes. But I remember writing, and whether it was
11 through McDougal or whether it was directly to the
12 Clintons, I would have requested financial statements
13 directly from the Clintons, not through McDougal.
14 There would have been written correspondence on that
15 in one form or another.

16 There would have been things that I
17 probably sent to the Clintons that would have gone
18 directly through them, the same thing to the
19 McDougals. But I can't remember precisely each one.

20 There would be normally copies of all that
21 in that file.

22 Q How do you know you would have requested

1 financial statements directly through the Clintons?

2 A Well, I remember trying to get financial
3 statements, for one thing. I keep coming back to
4 that, because that seemed to be I believe the hardest
5 thing for me to get, along with the interest, at
6 least, or any type of principal.

7 I do remember making requests for financial
8 statements, and sometimes I think I even tried early
9 to make requests before I needed them because I knew
10 it was going to take a while to get them.

11 We would have sent the forms directly.
12 This is simply my procedure-type thing, and that is
13 that when I have a note coming due and I need
14 financial statements, at least once a year I try to
15 get financial statements. It is not saying I didn't
16 by accident overlook something or it was not timely,
17 but that would have been what I would have tried to
18 do. I do remember chasing down for financial
19 statements on this account.

20 Q Do you recall any telephone conversations
21 with the Clintons regarding this loan?

22 A The only thing I can remember is possibly

1 calling Mrs. Clinton one time or more, but at least
2 one time, and I remember many conversations with Jim
3 McDougal.

4 Q Do you recall what the subject of that one
5 conversation you recall with Mrs. Clinton was?

6 A No, I don't really at this time, other than
7 to set up a meeting. That's the only thing I can
8 think of, or I needed a financial statement back.
9 But I really don't remember.

10 Q Do you recall any inquiries from the
11 Clintons as to the status of the loan or any other
12 matters regarding the loan?

13 A No, I don't remember that. I don't
14 recollect having them call me. I'm not saying it
15 didn't happen. I just don't recollect it.

16 Q With respect to the financial statements
17 that the Clintons provided, do you recall any
18 particular instances where there were deficiencies or
19 inaccuracies?

20 A I remember one in particular, because I
21 remember talking about it with one or two of our
22 people at the bank. That was the one I referred to

1 being -- I believe it showed a net worth of maybe
2 around \$200,000 or something like that, with one
3 debt. There were not many debts on it, but I
4 remember a Citation in particular, a Chevy Citation
5 in particular, a fairly large debt. I don't remember
6 much more than that other than it was a fairly low
7 net worth, of that nature.

8 Q Why do you recall that specific financial
9 statement?

10 A You know, I really don't remember exactly
11 why now. But I remember at the time talking about,
12 it seemed to me there were two houses that were
13 owned. There was some equity there. They supposedly
14 had no debt on them, I believe. I don't remember
15 whether or not Whitewater was even listed because I
16 believe they may have not had that on that financial
17 or they may have shown equity only, which would have
18 been a practice in those days for a lot of people.
19 But I just don't remember -- I remember when that
20 came in, I thought, oh, that is strange. I did not
21 do anything about it.

22 Q Right now, I'm looking at a financial

1 statement from May -- it is dated May 21, 1981 and
2 signed by Bill Clinton.

3 A All right.

4 Q It contains a listing for land in Marion
5 County and notes that there is a note on the land.
6 It does not place a value either on the asset or the
7 liability.

8 A That may have been --

9 Q Do you recall --

10 A Because I remember I was concerned. I was
11 saying, well, what about all this debt.

12 Q Did you follow up on that concern?

13 A I don't remember at this point. I think I
14 just accepted the financial statement, threw it in
15 the file and said fine, let it go. I just don't
16 remember.

17 MR. COLE: As we are looking at that
18 statement here, and this is difficult because
19 obviously you don't have it in front of you,
20 Mr. Ritter, I see what you mean. It does appear that
21 financial statement, which is dated May 21, 1981,
22 under "assets" describes three pieces of real estate,

74

1 a home in Little Rock, a home in Fayetteville and
2 then number three is land in Marion County.

3 On each it shows liabilities, and it lists
4 them, a mortgage on the two houses and then it says
5 for the land in Marion County, a note on the land and
6 a note on house on the land, but no dollar amounts
7 are shown --

8 THE WITNESS: That sounds familiar.

9 MR. COLE: -- on the land in Marion
10 County.

11 THE WITNESS: Does it show an automobile
12 with a debt against it?

13 MR. COLE: It shows a 1979 Oldsmobile and
14 Chevy Citation.

15 THE WITNESS: 6000?

16 MR. COLE: 7000. You are close.

17 What did you mean when you said showing
18 equity only was a normal practice at that time?

19 THE WITNESS: Many people would try to --
20 some of it through pure innocence and others through
21 a pleading of ignorance might neglect true debt and
22 show only equity in a particular project. It wasn't

1 the first time I had seen it.

2 I think I had the same problem with Chris
3 Wade on a couple of deals. I had seen it in Illinois
4 prior to that where contractors would show equity
5 only in their business and not show all the true
6 debts of the business anywhere.

7 In order to chase it down, you needed about
8 four financial statements from different
9 corporations.

10 BY MR. NAPPI:

11 Q Generally speaking, why do people engage in
12 this practice?

13 A Like I say, probably two reasons. One, out
14 of ignorance or the other out of pretended ignorance,
15 and they may have had another ulterior motive when
16 they did it. I was always rather cynical as a banker
17 so I assume the worst.

18 MR. COLE: The financial statement we are
19 discussing, which appears to be the one you recall,
20 does show, for the two homes in Little Rock and
21 Fayetteville, it shows an asset value and then it
22 lists the dollar amount for liabilities, and then for

76

1 the land in Marion County, which we understand to be
2 the Whitewater property, although that is not
3 indicated on this document, it shows neither an asset
4 value nor a liability.

5 THE WITNESS: Okay.

6 MR. COLE: So it is not exactly what you
7 were describing in either instance, because with the
8 real estate homes, they show both the asset value and
9 the outstanding liability.

10 THE WITNESS: They do show the debt on
11 there.

12 MR. COLE: Yes, they show the debts. They
13 show them itemized separately. Then, for the land,
14 they don't show either an asset or a liability. So
15 this does not appear to be what you are describing,
16 which would be where you show the net, what I would
17 call your net equity.

18 THE WITNESS: Let me try a hypothetical on
19 you for a minute. Suppose the land was worth \$70,000
20 and the debt was 100.

21 BY MR. NAPPI:

22 Q So, was it your opinion that they did not

1 list asset value or liability --

2 A I really didn't draw an opinion on that at
3 that time even. I don't remember. I just thought it
4 was rather interesting, but I really didn't draw a
5 conclusion from it. I guess the other thing I
6 thought was possible and might be a break-even
7 situation down there.

8 MR. COLE: Could it also be that you held
9 the note on this land and you were familiar with this
10 project?

11 THE WITNESS: I knew the debt.

12 MR. COLE: Because this was being submitted
13 to you?

14 THE WITNESS: Yes. I don't have a problem
15 with either of those. Like I say, that was a common
16 practice not to show the total debt.

17 MR. COLE: I understand. I just thought
18 you were saying something different. For example, if
19 I had a house that was worth \$100,000 and it had a
20 \$50,000 mortgage against it, it might show the net
21 value on a financial statement as \$50,000 as my
22 equity in the real estate. That's what I understood

1 you to be saying until I looked at the financial
2 statement.

3 THE WITNESS: The Whitewater property was
4 the only thing I was really referring to.

5 MR. COLE: Even on the Whitewater property,
6 what I just described was not done.

7 THE WITNESS: It doesn't show the asset
8 value, but it shows nothing.

9 MR. COLE: It shows nothing in either
10 column?

11 THE WITNESS: No.

12 BY MR. NAPPI:

13 Q Did you ever make any inquiry regarding
14 that item on the financial statement?

15 A I honestly don't remember. I remember
16 discussing that internally in the bank but not any
17 more than that.

18 Q Do you recall who you discussed it with?

19 A One of my fellow loan officers.

20 Q Do you recall which loan officer?

21 A Not offhand.

22 Q Do you recall what you said about that?

1 A No, not exactly.

2 Q I'm not asking you to quote it verbatim.

3 A I remember laughing or joking about it a
4 little bit, that that is rather interesting that
5 there is no asset value or that it was a net value or
6 something like that. I forget what it was. That it
7 didn't seem to be in total accuracy.

8 Q So you found that somewhat entertaining?

9 A I think so, internally in the bank.

10 Q Was that unusual?

11 A The thing that drew our attention to it was
12 the debt on the Citation.

13 Q Why did that draw your attention to it?

14 A I can't tell you. I don't remember. It
15 was strange that there was a \$100,000 debt, I
16 believe, or somewhere around that, 80, that didn't
17 seem to appear but a 6 or now you tell me 7 debt on
18 that Citation did.

19 MR. COLE: That was why I asked if perhaps
20 the case was that they assumed your bank knew what
21 was owed on the property.

22 THE WITNESS: I just don't know. I don't

80

1 remember doing anything more about it either.

2 MR. IVEY: What would have been the state
3 of the bank's knowledge about what was owed on that
4 property?

5 THE WITNESS: I'm sorry? Repeat that,
6 please.

7 MR. IVEY: Never mind.

8 BY MR. NAPPI:

9 Q Mr. Ritter, again, I apologize, you don't
10 have the document in front of you, so I will try to
11 describe the document I'm looking at.

12 It is a form of guaranty, the standard bank
13 form, it looks like, dated the 5th of August 1981.
14 It is a corporate guaranty from Whitewater
15 Development Company to the Flippin Bank.

16 Do you recall seeking a corporate guaranty
17 from Whitewater Development Company?

18 A Yes, I do. I believe somewhere along the
19 line I had discovered that somehow the title had
20 changed from a partnership or to a corporation or
21 that there was a corporation, all of a sudden,
22 involved that I hadn't suspected.

1 I believe -- I'm really stretching now.
2 Just a minute. Let me think for a minute. I believe
3 at that particular event, I was surprised that either
4 the title had changed or something had changed. I
5 believe it was the title had changed from the
6 partnership to the corporation even though we still
7 had the note. I wanted the corporation's guaranty
8 also, even though our mortgage would have -- it was
9 one more name to add to the list.

10 MR. COLE: Was there any discussion of
11 transferring the debt from personal debt of the
12 partner to a corporate debt of the corporation?

13 THE WITNESS: There might have been, but I
14 don't recall it. There wasn't before the corporation
15 was found, because I discovered the corporation
16 somewhere along the line when I was nosing around
17 about somehow the sales of the real estate down there
18 on contract. But I don't really recall exactly. I
19 remember discovering that there was a corporation
20 involved that I wasn't aware of, and I remember
21 bringing that to Jim's attention and then I remember
22 having to rework some documents because of that.

1 BY MR. NAPPI:

2 Q Did anyone allege that the corporation had
3 any assets that might provide the bank with recourse
4 in case you had to act on this guaranty?

5 A I don't remember. I remember when I got
6 the guaranty, it was more of one of wanting that
7 extra signature. I don't remember requesting a
8 financial statement on the corporation. I could
9 have. I just don't remember that.

10 I don't believe I was even thinking much
11 deeper, and I don't believe the board was involved
12 with this at all. I believe it is something I took
13 upon myself that once I found that name involved,
14 that I had the corporation guarantee the note that we
15 had that was still on the partnership and still had
16 the individuals, and I was still looking at the deep
17 pockets as being the individuals, not the
18 corporation.

19 But I just don't remember getting any type
20 of financial statements on that corporation.

21 Q Would it have been your practice with
22 respect to this loan to seek a financial statement

1 from the Clintons on each instance where you sought a
2 financial statement from the McDougals?

3 A Yes.

4 Q You don't recall deviating from that
5 practice at any time?

6 A Not on purpose. I can also say that if
7 there was one that was not eventually received, it is
8 possible that was overlooked somehow, because later,
9 towards 1982, I believe, there was another officer
10 that might have been involved with this a little more
11 than I.

12 Q Who was that?

13 A I think Ron Proctor eventually picked up
14 part of it, maybe George Myers for a short period of
15 time possibly. But I think Ron Proctor ended up
16 dealing with it because once we got into 1983, I
17 believe I was more concerned with the bank than I was
18 the loans.

19 Q Do you recall ever seeking an assignment of
20 the deed contracts to the bank?

21 A I don't remember. It seems to me that I
22 might have, but I don't remember. Come to think of

1 it, I think that at one time that when we knew that
2 there were some deed contracts going on that we might
3 have tried that. I don't remember the outcome.
4 There was something that said there was some
5 additional value there. Whether that was at the time
6 they wanted to borrow some extra money or not I don't
7 remember. Now that you mention that, I do remember
8 something about that, looking at assignments. I
9 don't know whether that was me directly or me saying
10 something to someone else that they ought to look
11 into it. I'm just not sure.

12 Q I'm looking at a record here, and I
13 apologize again for not being able to show it to
14 you. The date is cut off, but it seems to be a
15 write-up on the loan. Not a regulatory write-up
16 but --

17 A An internal memo?

18 Q Yes. It talks about Chris Wade or it
19 states "Chris Wade visited with Bob Ritter about
20 assigning contracts on Whitewater estate to Citizens
21 Bank and Trust Company and that the payments on the
22 contracts as collected should go into a checking

1 account which we will need to set up as Whitewater
2 Estates. However, this should be looked into a
3 little more closely because I believe it is a
4 corporation and we are going to need a corporate
5 resolution to support the checking account."

6 Do you recall this conversation with Wade?

7 A Yes, a little bit, maybe in general.

8 Was there something else to go with that,
9 such as a request for \$20,000 or something like
10 that?

11 Q Well, the interest funding loan was made in
12 1982. There was a loan number 10295. It was a
13 \$20,000 loan on November 1st of '82.

14 A Okay. How does that coincide with the date
15 on my memo?

16 Q I can't give you the specific date on your
17 memo, because it is cut off as to the listing of the
18 month. It is a 1982 memo.

19 A Okay.

20 Q It was written on the 30th of some month in
21 1982. I'm looking through some records right now to
22 see if there is anything that would indicate. What

1 do you recall of the interest funding loan, the
2 \$20,000 loan that was made on November 1st of '82?

3 A Well, I'm not sure how much I recall. I
4 recall some things in general. I'm not sure that at
5 first it was called an interest funding loan. I
6 thought it was some additional funds that they needed
7 for something initially, and then later on, I think
8 it turned into basically to pay the interest on our
9 original note.

10 Q I apologize for my characterization.

11 What do you recall of the loan?

12 A I remember the request. It just wasn't one
13 of those ones that is real black and white. It had a
14 lot of reasons not to make the loan probably.

15 Q Do you recall why there were reasons not to
16 make the loan or feeling that way?

17 A Just previous history on the loan in
18 general and the problems that we had had. However,
19 they were running -- because of the interest rates
20 and because of things that changed in the speculative
21 part of that land and it wasn't paying off the way
22 everyone expected it to, I think they were running

1 short of cash, or at least cash flow.

2 If I'm not mistaken, I believe Chris is the
3 one who originally proposed it, or Jim McDougal
4 originally called me and I said no. Chris came in
5 and tried to say here are some ways we probably could
6 do it.

7 My nature is to try to find a way to do
8 things, not to find a way to necessarily turn them
9 down. If I found a way that made some sense in
10 helping the bank not be totally unsecure, I would try
11 to do something like that.

12 Q I have found a record. It is a letter of
13 direction addressed to the Citizens Bank & Trust
14 Company. It is signed by James McDougal as president
15 of the Whitewater Development Company. It is dated
16 October 30th of 1982, which would be two days before
17 this \$20,000 loan was made.

18 Does that refresh your recollection as to
19 any connection between these two?

20 A No, not right now.

21 Q Do you recall whether this assignment of
22 escrowed funds was an attempt to gain greater

1 security in making the subsequent loan?

2 A I think that was so.

3 Q Did the board of directors have to sign off
4 on the \$20,000 loan?

5 A I believe they did.

6 Q Do you recall the meeting at which they
7 considered this loan?

8 A Not in particular, no.

9 Q Do you recall anyone on the board of
10 directors expressing reservations about making
11 additional credit available?

12 A That would have been normal.

13 Q Do you recall specifically who may have?

14 A Lyle Wood in particular, I believe.

15 Q Why did Mr. Wood seem concerned about
16 making --

17 A He wasn't the only one. I'm not sure that
18 Peter Pietz didn't also have some real reservations.
19 Kerm Powers would have been another one. In this
20 particular case, I'm not sure they did, but the board
21 in general I don't think was 100 percent behind the
22 additional advance, just from my recollection.

1 Here again, it wasn't a slam-dunk. There
2 was a lot of discussion that would have taken place
3 at that particular discount meeting or at a board
4 meeting. I'm not sure. It could have been a board
5 meeting.

6 Q Do you recall who advocated making the
7 loan?

8 A I would have proposed it. I'm not sure I
9 advocated it. I think I may have proposed it and
10 said here's a way that this possibly could be made if
11 we want to make it. I know that the major force
12 behind that one came from Chris Wade.

13 Q Did anyone else advocate making this loan?

14 A I can't be sure of that. I don't remember
15 who was exactly. There would be records on that,
16 though, by the way.

17 Q Yes.

18 In this instance, this loan is made in
19 November of 1982. You have a loan that has been
20 outstanding for over four years. There have been
21 problems in receiving payments of principal and
22 interest. Would you say that is correct?

90

1 A That's correct.

2 Q Speaking for yourself personally, what did
3 you see as, you balanced the equities, reasons to
4 make a subsequent loan to these same borrowers, an
5 unsecured loan?

6 A We really wanted out of the credit at that
7 time. I think that there may have been some promises
8 that they could probably do some other things or
9 whatever the reason may have been at that time. I'm
10 not sure there weren't some promises that someone
11 could take this out and maybe over to Lavaca or to --
12 I can't remember where Jim McDougal's bank was at
13 that time. It is not coming. Over to McDougal's
14 bank itself.

15 I wasn't exactly sure, and that is kind of
16 vague at this point in time.

17 Q Do you recall who made these promises?

18 A No, not exactly. But Chris and Jim
19 McDougal were the two big players at that time.

20 Q But you specifically recall mention of Bank
21 of Lavaca?

22 A Yes. Wade had not broken his ties with Jim

1 Patterson, and Patterson had always been nosing
2 around over at Flippin anyhow, constantly trying to
3 make life miserable. I'm not sure that -- I'm not
4 sure that that wasn't talked about.

5 But there had to have been a fairly decent
6 reason for making a \$20,000 unsecured loan, and I
7 can't remember what it was.

8 Q But you just testified that you recall
9 discussions to the effect that they would use this
10 loan to clean up their loan so that they could get
11 financing elsewhere?

12 A Either that -- I'm just not exactly sure on
13 that.

14 But I believe I recollect some discussion
15 regarding how they could take this loan out of the
16 bank and take it to another institution. That's one
17 part.

18 The other part was that there appeared to
19 be some equities someplace else over and above the
20 asset value of the land, somehow, contracts that
21 would help reduce the principal part of the loan. We
22 would have been looking for an assignment of those in

92

1 order to look for principal repayment, rather than
2 having them go directly into either a corporation or
3 to the principals.

4 But there would also be a write-up in
5 either the minutes or the discount committee as to
6 why the action took place on that \$20,000 loan. If
7 you have my notes there, you have the file there,
8 there should have been a write-up by myself to the
9 discount committee discussing the merits of that.

10 Q Was there any discussion of the need -- was
11 there an acknowledgment that this was a loan to the
12 governor of the state at this meeting?

13 A I guess I really don't understand the
14 question.

15 Q Yes, because I didn't phrase it very well.
16 I apologize.

17 Let's focus in on the meeting where the
18 \$20,000 loan was discussed.

19 A Okay.

20 Q During the discussion where the pros and
21 cons of making the loan were discussed, was there any
22 acknowledgment of the fact that this would be a loan

1 to the governor of the state?

2 A Quite honestly, that subject always came up
3 throughout the whole life of the loan, the fact that
4 this was the Governor or ex-Governor or soon to be
5 Governor again.

6 That was always acknowledged from day one.
7 Whether there were exceptions made because of that, I
8 don't know, but at least everyone was well aware of
9 who he was.

10 Q So, at every meeting of the board or the
11 discount committee that you can recall the fact came
12 up that this was a loan to the governor of the state?

13 A Didn't even have to remind them. They all
14 knew that. You didn't even have to mention it.

15 Q How could you tell they were aware of it?

16 A Because everybody knew who he was.
17 Arkansas is a small state. So it doesn't take a
18 rocket scientist to know that he is governor or he is
19 going to be elected governor again.

20 It was just one of those -- it wouldn't
21 even have needed to be mentioned. Everyone knew
22 exactly who he was.

1 Q Do you recall any specific discussions
2 regarding this fact?

3 A Originally, Frank Burge was bragging about
4 the fact that -- once I came there, Frank and I were
5 together for maybe a week or two at the most, and
6 Frank was bragging about the fact that we did have
7 the Governor. He thought that that was really a
8 coup, that we had the Governor on the books and he
9 was rather proud of that fact, I think. That's the
10 way I remember it at that time.

11 Later on, the discussion was always that
12 this is the Governor who is involved. I guess the
13 feeling that I got, as I remember back, is that there
14 were two parties, one that supposedly had deep
15 pockets and the other one that had the political
16 clout. Supposedly the deep pockets were the
17 McDougals and supposedly the political clout was the
18 Governor.

19 Q So, there was a need to provide special
20 treatment to this loan?

21 A I don't know about the special treatment
22 part. I'm using a lot of conjecture here for a

1 minute.

2 Chris Wade was extremely involved in this
3 for a multitude of reasons, once I found out more.
4 One was the sale of the land contracts or sale of the
5 property, the initial sale of the property through
6 Chris as being the agent and acting again as agent to
7 sell more of their property once it was put into the
8 Whitewater "loan," that the property itself would
9 then be sold by a lot of the local realtors,
10 including Chris Wade.

11 So, Chris always had a major involvement
12 because of that. Because of that and other things is
13 the reason that I bought Chris off of the board, and
14 because Chris, nice enough fellow that he was, was
15 also kind of a thorn in everybody's side on the
16 board.

17 So, eventually that came to a head in '83,
18 but during the early years, Chris would have been a
19 very active board member in trying to persuade myself
20 and others to do certain things as it related to this
21 loan, and other loans too, but mainly ones that he
22 had a financial interest in.

1 I don't know if that best describes that or
2 not. But as far as special treatment, probably other
3 than walking on eggshells a little bit more than I
4 would on other loans and being a little bit -- going
5 that extra mile to be accommodating, I guess, but
6 there are certain other people I would have done the
7 same thing on.

8 Q Can you recall any other person that you
9 treated similarly?

10 A I don't remember the names; but there would
11 have been several large loans or very prominent
12 people in the area that I probably would have walked
13 a little closer or softer on. One might have been
14 Microplastics, that would have been a loan. I think
15 we had a loan at the same time where I was trying to
16 get the account or we had the depository.

17 Of course, Forest Wood would have been
18 another one. We didn't have any loans with them that
19 I recall. We might have, but we certainly had the
20 depository-type accounts and loans to his family. We
21 would have bent over backwards for those people.
22 Some of the larger ranchers in the area we might

1 have. Johnny Wilson is an example, is one of the
2 customers that I probably would have been the same
3 way. But he didn't request anything special, but if
4 he had, I would have looked at it very carefully.

5 MR. COLE: I take it, though, Mr. Ritter,
6 what you are describing is just normal business
7 practice where some clients are larger or more
8 significant than others and you are not suggesting
9 that you or anyone else at the bank did anything
10 illegal or professionally improper in connection with
11 this Whitewater loan?

12 THE WITNESS: That is correct, or anybody
13 else's loan.

14 BY MR. NAPPI:

15 Q Mr. Ritter, do you recall ever receiving a
16 financial statement from the Clintons that was
17 addressed to the Bank of Cherry Valley?

18 A There was a financial -- I don't remember
19 Cherry Valley, but there was a financial statement
20 that did come in that was addressed to somebody else,
21 and I thought it was Citizens Bank of Lavaca, or
22 possibly the McDougals' bank. I don't recall that

1 precisely. I remember a financial statement coming
2 in addressed to someone else at one time. I don't
3 remember doing anything about it.

4 Q Were you surprised to receive a financial
5 statement to another bank? Was this common?

6 A It happens occasionally. It has happened
7 to me before.

8 Q Was it an original execution or was it a
9 copy of an executed financial statement?

10 A I just don't remember.

11 Q Do you recall during your tenure a sale of
12 a parcel in the Whitewater property to Chris Wade?

13 A I don't remember that one.

14 Q Do you recall a release or executing a
15 release, partial release, for a lot on which a model
16 home was to be built?

17 A A model home?

18 Q Yes.

19 A Was that a log cabin? Do you know?

20 Q I do not know. Mr. Cole is indicating that
21 it was not a log cabin.

22 MR. COLE: A prefabricated modular home.

1 THE WITNESS: I don't remember that. If at
2 all, vaguely is all.

3 MR. NAPPI: I don't have any further
4 questions at this time.

5 EXAMINATION

6 BY MR. COLE:

7 Q Mr. Ritter, this is Lance Cole. The
8 procedure that we follow is after the Majority
9 Counsel completes their questions, Minority Counsel
10 asks follow-up questions.

11 I do want to go back over some of the areas
12 that Mr. Nappi has already covered. I will try to be
13 as brief as we can because I realize we have had you
14 on the telephone for a long time. I apologize that
15 perhaps this is not the most efficient procedure, but
16 it is the one that we have agreed to here.

17 You began at the bank in Flippin in 1979?

18 A Yes.

19 Q Where did you work prior to that?

20 A The Bank of Illinois in Normal, Illinois.

21 Q So, I was going to ask you about what your
22 understanding was of the real estate market in

100

1 northern Arkansas and the Marion County area prior to
2 1979.

3 A I didn't have an opinion.

4 Q You had no knowledge of that. Did you come
5 to know that persons like Mr. Wade and others in the
6 real estate business in that area had been successful
7 in real estate in the late 1970s and made a good deal
8 of money?

9 A Yes. That's the reason I moved down
10 there.

11 Q And did the real estate market change
12 during the time that you were there in terms of
13 supply and demand and profitability?

14 A I got the word late. It had already
15 changed before then.

16 Q That's what I was -- I can't nail down the
17 date, but I thought around 1979?

18 A All of the Cadillacs were '77 vintage.

19 Q Related to that, was the Whitewater
20 Development project an unusual real estate project
21 for that area at that time?

22 A I don't believe so.

1 Q And had Mr. Wade engaged in other similar
2 projects in one form or fashion of another?

3 A It may have been part of the same parcel,
4 but the answer to the question, I believe, is yes.

5 MR. NAPPI: But you had no specific
6 knowledge of Mr. Wade or anyone else's real estate
7 development activities prior to --

8 THE WITNESS: Prior to '79, no. However, I
9 did know those people prior to that. I didn't know
10 them personally but I knew of them.

11 BY MR. COLE:

12 Q "Those people" being?

13 A Being Chris Wade and some of the others
14 over at the bank in Flippin. As I stated, my mother
15 lives in Arkansas over in the little town of
16 Salesville. I would go down to visit quite often and
17 nose around the banks down there. So, I would hear a
18 lot. I interviewed at that bank in maybe June of '78
19 maybe, with Frank Burge to come in as a number two
20 man for Frank Burge and I was not selected.

21 So I was familiar a little bit with that
22 area and the people and who the players were a little

1 bit. So, my desire to be a CEO and the desire to
2 move to north central Arkansas was strong enough for
3 me to take that position at Flippin when it became
4 available.

5 So I was familiar with the area, I was
6 familiar with the land sales, I was familiar with the
7 development that was going on. I missed out on the
8 part where it had changed.

9 Q Timing is everything in life, they say.

10 A I guess.

11 Q What I was getting at was whether there was
12 anything unusual about the making of the Whitewater
13 loan or the terms of that loan based on what you
14 found when you came to the bank in 1979.

15 A No, I don't believe so at that time.

16 Q And the fact that as the documents that we
17 have indicate, the credit was set up on six-month
18 demand notes, was that standard practice for that
19 kind of commercial real estate loan?

20 A It was.

21 MR. NAPPI: He testified as to that.

22 BY MR. COLE:

1 Q You also testified that you found that, in
2 your view, Mr. Patterson was, I think your word was,
3 loose with respect to the operation of the bank?

4 A I could use some other words.

5 Q I take it that, perhaps, based on some of
6 your comments that Mr. Patterson left the bank under
7 not the most friendly of circumstances?

8 A That's also true.

9 Q So your references to Mr. Patterson's
10 management weren't directly specifically to the
11 Whitewater loan then?

12 A No.

13 Q And that was just characteristic of
14 generally the manner in which he was running the
15 bank?

16 A The things that he was doing at the time,
17 yes. I can't speak as to why James Patterson made
18 that loan. That is completely different than my
19 opinion, I'm sure.

20 Q And you also testified that when you were
21 talking with Mr. Burge initially that he boasted or
22 seemed proud of the fact that the Governor had a loan

104

1 with that bank?

2 A That's correct.

3 Q Did anyone tell you when you came in and
4 were hired that you should give this loan and the
5 Clintons special treatment?

6 A No. They did happen to mention, though,
7 that -- one of the board members, or more, also
8 mentioned that we do have the Governor on the books
9 for a loan, and I think it was a matter of fact or a
10 matter of passing, not necessarily any type of
11 instructions or anything other than that.

12 MR. NAPPI: When did they mention this?

13 THE WITNESS: Very close to the time,
14 either while I was being interviewed or shortly
15 thereafter.

16 MR. NAPPI: What board members?

17 THE WITNESS: I don't recall exactly. I
18 can tell you that I believe at my initial interview
19 it might have been brought as a matter of
20 passing, and it would have been kind of a jokingly
21 type thing that would have been done very similar to
22 "let me tell you how good our bank is, we even have

1 the governor of Arkansas on the books." I think it
2 was more of a kidding thing.

3 MR. NAPPI: Do you recall which director
4 brought this up?

5 THE WITNESS: I don't remember. I think it
6 was more of an in-fun, jest-type thing, like "we are
7 happy to have you aboard." It was kind of an
8 in-jest.

9 MR. NAPPI: Was it Vada Sheid?

10 THE WITNESS: I don't remember Vada being
11 at that initial interview, but she might have been
12 there.

13 MR. NAPPI: Was it more than one director
14 or one director?

15 THE WITNESS: I don't remember. It was
16 kind of a more in-fun poke-type thing, and not
17 derogatory and not -- I'm trying to describe how that
18 would have come off. But it wasn't one of "be
19 careful, we have the Governor, you have to walk
20 softly." It wasn't that type of thing. It was more
21 of a thing if I were going to sell my house, I might
22 even say and don't forget, George Washington slept

1 here.

2 MR. NAPPI: Were there any other specific
3 loans that were brought to your attention at that
4 initial meeting?

5 THE WITNESS: The fact that there were
6 some -- they gave me a general condition of the bank
7 at that time.

8 MR. NAPPI: But any specific credits
9 outstanding?

10 THE WITNESS: No, none, including the
11 Governor's, was even mentioned. As far as specific
12 items, I knew that there were some loans that had to
13 be worked on. They did not talk about who. They
14 just gave me a general picture, or I would have asked
15 the question.

16 BY MR. COLE:

17 Q Mr. Ritter, in the instances where you
18 contacted either Bill Clinton or Hillary Rodham
19 Clinton to obtain financial statements, did they ever
20 express any reluctance to give you those statements?

21 A No, I don't think that that would have ever
22 been the case. As I said before, it was a matter of

1 yes, we will get that to you right away, and then
2 three weeks later you have to follow up again.

3 MR. NAPPI: Do you have any specific
4 recollections of any discussions regarding delinquent
5 financial statements?

6 THE WITNESS: Yes, but I'm not sure whether
7 it was with the Clintons or the McDougals. I
8 remember having many discussions regarding delinquent
9 financial statements, yes.

10 BY MR. COLE:

11 Q Focusing on the financial statements of the
12 Clintons, Mr. Ritter, were those financial statements
13 something that you needed to look at in order to make
14 a decision as to what action you would take with
15 respect to the loan or was that something you merely
16 needed to complete your loan file?

17 A It was to complete the loan file. The
18 decision to make the loan had already been made.

19 Q By "make the loan," I also mean to extend
20 the loan.

21 A Same thing. It was not a requirement that
22 would preclude us from extending the loan.

1 MR. NAPPI: Could it affect your decision
2 to extend the loan?

3 THE WITNESS: It might have, but I
4 didn't -- I guess maybe in those days we were more of
5 an asset lender in some cases where we had a piece of
6 real estate that supposedly had a lot of value based
7 on some method, and I'm not sure what it was, but at
8 least had value to cover the loan. A lot of times in
9 those days many of the baby boomers, if you will,
10 felt that land never goes down in value. So, I think
11 the general thinking was a piece of land is a piece
12 of land.

13 There were some on the board that were more
14 conservative, that said I don't care what kind of
15 land it is, it is only worth what it will feed out,
16 \$50 an acre is all you can feed cattle on, that is
17 all it is worth.

18 Some of the board members were not into
19 exaggerated land prices based on somebody moving from
20 Chicago down to Arkansas, and there were a few still
21 that said that here is a good value because when you
22 chunk it out, it is going to be this many dollars

1 versus the full price on 100 acres at \$1200 an acre
2 and we will end up with \$5000 an acre because we are
3 going to chunk it out.

4 So, that type of thinking went on as it
5 related to land values. Because of that, I believe
6 that the financial statements were more to please the
7 regulators and give us an overview as to -- if I had
8 found something extremely negative on a financial
9 statement, would I have tried to do something or have
10 done something about it? Probably. I may have gone
11 to the board and said, here, I don't think this is
12 quite right, maybe we need to think about doing
13 something a little differently. I don't remember
14 that occurring.

15 BY MR. COLE:

16 Q In terms of factors you were looking to
17 when you evaluated this loan, if you split it in
18 three pieces -- and you tell me if this is not the
19 correct way to look at it -- but one would be the
20 asset itself.

21 A That's correct.

22 Q And another would be the creditworthiness

1 of the McDougals, and then the third being the
2 creditworthiness of the Clintons.

3 A That's correct. And one more.

4 Q What is the fourth one?

5 A The character.

6 Q I included that in both the Clintons and
7 McDougals. Can you rank those in terms of importance
8 to you?

9 A Probably the character is more important
10 than anything else. The second would probably be the
11 ability to repay. However, exceptions get made in
12 that particular situation, and the collateral value
13 or the secondary collateral value would be the last.
14 That would be the fallback position.

15 So -- however, I'm not sure that applies to
16 everybody in their thinking. I'm not sure it totally
17 applied to my thinking in those days. I might have
18 leaned a little stronger on the collateral.

19 But I guess primarily I was saying that the
20 character of the individuals here, we don't have a
21 problem with that, as far as I knew. Next is the
22 value of the land might be sufficient to cover it,

1 and third, the ability to repay appeared to be
2 impaired somewhat.

3 Now, to put things in a proper perspective,
4 the loan to the Clintons and McDougals was not the
5 most important thing on my mind in those days.

6 Q That was going to be my next question,
7 actually, whether you had other loans that were more
8 serious problems for the bank.

9 A Right. Not only did I have that, but being
10 a brand-new CEO, recently an EVP at a different
11 location and not having had total experience before,
12 I had my hands full not only with people problems but
13 other loan problems, and then once the usury rate had
14 been lifted, I had about 1500 people all down my neck
15 at one time because they decided to rewrite that
16 whole portfolio. I was not exactly the superhero of
17 Flippin.

18 MR. COLE: I can imagine.

19 I don't have anything further.

20 MR. IVEY: No questions from me.

21 MR. COLE: Thank you very much,

22 Mr. Ritter.

1 MR. NAPPI: We really appreciate it.
2 (Whereupon, at 11:20 a.m., the deposition
3 was concluded.)
4
5

6 -----
7 ROBERT RITTER
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I, BRENDA M. SMONSKEY, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Brenda Smouskey
Notary Public in and for the
District of Columbia

My Commission Expires SEPTEMBER 14, 1996

DEPONENT

ERRATA

<u>PAGE</u>	<u>LINE</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON</u>
6	15	1979	1980	I was wrong
31	5	Right	One Month	I was wrong on date
32	16	OF deed	of mortgage	wrong Term
46	12	on the	one of the	if I did not say this I should have
49	11	79	80	I was wrong on date
49	12	80	81	"
55	14	'79	'80	"
55	18	'80	'81	"
55	19	'80	'81	"
67	9	Frail - wide - or	Detite	Not needed
69	18	Through	to	More correct
96	16	we had	we were	"
101	18	'78	'79	"
111	15	They	We	More Correct

**DEPOSITION OF W. MAURICE SMITH, JR.
IN RE: S. RES. 120**

TUESDAY, APRIL 23, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of W. MAURICE SMITH, JR., called
for examination pursuant to notice of deposition, at 9:17 a.m. in
Room 640-A of the Hart Senate Office Building, before CARMEN
BUNCH, a Notary Public within and for the District of Columbia,
when were present:

H. CHRISTOPHER BARTOLOMUCCI, Esq.

Majority Associate Special Counsel

MARK J. BRENNER, Esq.

Majority Assistant Special Counsel

NEAL E. KRAVITZ, Esq.

Minority Principal Deputy Special Counsel

JAMES S. PORTNOY, Esq.

Minority Associate Special Counsel

U.S. Senate

Committee on Banking, Housing, and Urban Affairs

534 Dirksen Building

Washington, DC 20510

On behalf of the Committee.

CONTENTS

WITNESS	EXAMINATION
W. Maurice Smith, Jr.	
by Mr. Bartolomucci	7
by Mr. Kravitz	56
by Mr. Brenner	61
by Mr. Portnoy	119
by Mr. Bartolomucci	125
by Mr. Brenner	133
Errata	5200

1 PROCEEDINGS

2 MR. BARTOLOMUCCI: There is some
3 preliminary information I have to impart to you for
4 the record. This is a deposition conducted pursuant
5 to Senate Resolution 120, which establishes a Special
6 Committee administered by the Banking Committee to
7 conduct an investigation of, among other things,
8 Madison Guaranty and Whitewater Development
9 Corporation.

10 This deposition is in advance of public
11 hearings, and depending upon your testimony, it may
12 or may not be necessary to call you to testify here
13 in Washington.

14 I'll be putting the questions to you under
15 oath. I'll have the court reporter swear you in
16 before I begin any questions. If you don't
17 understand the question or you didn't hear me, please
18 let me know and I'll restate it or rephrase it for
19 you. And again, let me know at any time if you need
20 a break or you want us to pause.

21 MR. SMITH: Okay.

22 MR. BARTOLOMUCCI: Our court reporter is

1 going to prepare a record of the questions I ask and
2 your answers, and we're going to treat that as
3 confidential until the commencement of any hearings.
4 And prior to the hearings, you will receive an
5 opportunity to review the transcript of this
6 deposition so that you can make note of any minor
7 corrections to the deposition.

8 Also, if you're called to testify at a
9 public hearing, Mr. Smith, we will make sure that you
10 have a copy of your deposition hopefully four days in
11 advance of such a hearing.

12 You've told me already you're not
13 represented by counsel. I'll just tell you for the
14 record that objections to the forms of questions will
15 be noted upon our record and it's also permissible to
16 object on grounds of privilege or scope.

17 Ultimately the Committee chairman here,
18 Senator D'Amato, may rule on objections if you refuse
19 to answer a question. I'm going to ask our court
20 reporter to swear you in now; okay.

21 MR. SMITH: Okay.

22 Whereupon,

1 W. MAURICE SMITH, JR.

2 was called as a witness and, having first been duly
3 sworn, was examined and testified as follows:

4 MR. BARTOLOMUCCI: We're going to pause for
5 a second and go off the record.

6 MR. KRAVITZ: I would like this to be on
7 the record.

8 MR. BARTOLOMUCCI: Okay. It's on the
9 record.

10 MR. KRAVITZ: Mr. Smith, this is Neal
11 Kravitz, one of the lawyers on the Democratic staff.
12 One thing I just wanted to tell you was, I don't know
13 whether you've had a chance to see a copy of the
14 Senate resolution that Mr. Bartolomucci mentioned
15 when he was speaking a few minutes ago, Senate
16 Resolution 120.

17 THE WITNESS: No, I have not.

18 MR. KRAVITZ: You have not?

19 THE WITNESS: No.

20 MR. KRAVITZ: If you were to see the
21 resolution, you would see that what the Senate did in
22 this resolution was to lay out in some detail the

6

1 subject matter that the Special Committee is
2 authorized to investigate. Mr. Bartolomucci
3 mentioned that objections can be made to the scope of
4 questions.

5 One thing that may arise, I hope it
6 doesn't, but one thing that may arise during the
7 course of this deposition is that one of the lawyers
8 on either side may ask a question that lawyers on the
9 other side think is outside the scope of the subject
10 matter authorized for investigation by the Senate
11 resolution.

12 If that happens, someone here may object to
13 the question. And what I would ask you to do is if
14 that happens, is please wait to answer the question
15 until we have resolved our discussion here.

16 THE WITNESS: Okay.

17 MR. KRAVITZ: And then if the resolution is
18 that you should answer the question, we will tell you
19 that and if the decision is that you should not
20 answer the question, we will tell you that.

21 THE WITNESS: Okay.

22 MR. BARTOLOMUCCI: The only thing I would

1 add to that, Mr. Smith -- this is Chris Bartolomucci
2 again -- and I think I mentioned this, it's the
3 Committee chairman who ultimately rules upon
4 objections. And if you refuse to answer a question,
5 you may be ordered by the Chairman or the committee
6 to answer it either in another deposition or at a
7 hearing, just so you know.

8 THE WITNESS: Okay.

9 MR. BARTOLOMUCCI: Anything else, guys?
10 Okay.

11 EXAMINATION

12 BY MR. BARTOLOMUCCI:

13 Q Would you please give us your full name for
14 the record?

15 A William Maurice Smith, Jr.
16
17
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19

20 Q Can you quickly give us your educational
21 background, college or later education?

22 A I have a bachelor's of science in

1 agriculture from University of Arkansas at
2 Fayetteville, Arkansas.

3 Q And are you presently employed?

4 A I'm a farmer, self-employed farmer.

5 Q Do you go by any nicknames?

6 A Nicknames?

7 Q Yes.

8 A No.

9 Q How long have you known President Clinton?

10 A Since 1976.

11 Q And when did you first work for Bill
12 Clinton or in the governor's administration?

13 A Well, I worked as a legislative liaison in
14 1979.

15 Q How long did you hold that post?

16 A About three months, just while the
17 legislature was in session.

18 Q Can you tell me what role you had during
19 Clinton's 1992 campaign for governor -- 1982, rather?

20 A Yeah, I was finance chairman.

21 Q You said finance chairman?

22 A Right.

1 Q And you assumed a post within the
2 governor's office after the '82 election; right?

3 A Right.

4 Q What position was that?

5 A It was executive secretary.

6 Q What were your duties as executive
7 secretary, just speaking generally?

8 A Generally, just I would call it kind of --
9 I don't know, help run the office and help with the
10 departments, boards and commissions.

11 Q Did you have any other particular duties
12 other than helping with the appointments to
13 commissions and the like?

14 A I helped run the office, too.

15 Q Did you report directly to the governor?

16 A Yes, right.

17 Q And can you tell me what role you played
18 during the 1984 gubernatorial campaign?

19 A I was in the office. I did not work on the
20 campaign.

21 Q So you remained at the executive secretary
22 post?

10

1 A Right.

2 Q Now, at some point Governor Clinton named
3 you to the University of Arkansas board of trustees;
4 is that right?

5 A That's right.

6 Q And am I right that that was March of 1985?

7 A Sounds about right.

8 Q After that appointment, did you ever again
9 work for the governor?

10 A No.

11 Q But there did come a time, right, when you
12 were made the director of the Arkansas Highway and
13 Transportation Department?

14 A Right.

15 Q Can you tell me what year you were
16 appointed to that post?

17 A It was January of 1989 -- no, '88.

18 Q January of 1988?

19 A Yes.

20 Q And you were appointed to that post by
21 Governor Clinton?

22 A No, I was appointed by the State Highway

- 1 Commission, a five-member commission that hired me.
2 Q You said that was a five-member commission?
3 A Right.
4 Q Are you saying that Governor Clinton was
5 uninvolved in your appointment to that post?
6 A Yeah. He doesn't make the appointments of
7 the highway director. I was the highway director.
8 Q Does the governor have any involvement at
9 all in making those decisions?
10 A The governor is on the commission, but they
11 appoint a commission every two years.
12 Q And how long is the term of the director of
13 the Highway and Transportation Department?
14 A The director of the highway department
15 serves at the pleasure of the commission.
16 Q So you're saying it's for an unlimited
17 term?
18 A It's a paid -- I was the director -- I ran
19 the whole department.
20 Q Okay. How long did you serve in that post?
21 A I served until December 31, 1993.
22 Q That was December of '93?
-

- 1 A Yes.
2 Q Did you have any role in Clinton's 1992
3 campaign for the Presidency?
4 A No.
5 Q Can you describe for me your relationship
6 with Jim McDougal?
7 A I've known Jim McDougal since he worked for
8 Senator Bill Fulbright back when he was first in his
9 office here in Little Rock.
10 Q Can you tell us what year that was?
11 A I don't know. It was many years ago.
12 Q Did you ever work together in the same
13 office or nearby offices?
14 A He was in the governor's office when I was
15 legislative liaison that three months.
16 Q And do you also know Susan McDougal?
17 A Yeah, I know her.
18 Q How would you describe your relationship
19 with Mrs. Clinton?
20 A Mrs. Clinton?
21 Q Yes.
22 A I get along very well with Mrs. Clinton.

1 I've known her as long as I have her husband.

2 Q And I'm also correct, aren't I, that you
3 either were or are the owner of the Bank of Cherry
4 Valley?

5 A I was. I don't own it anymore.

6 Q Can you tell us roughly what years you
7 owned the bank?

8 A I mean, I didn't own it. I was a majority
9 stockholder in it, let's put it that way.

10 Q During what years were you the majority
11 stockholder?

12 A Oh, up until we sold it in '93, I guess.

13 Q Up until '93?

14 A Yeah.

15 Q And you would have been the majority
16 stockholder during the 1980s?

17 A Yeah, right.

18 Q Am I right that Cherry Valley is about 100
19 miles northeast of Little Rock?

20 A Yeah.

21 Q Can you tell me what the bank's lending
22 area was?

14

1 A What do you mean what the lending area
2 was?

3 Q Well, was there a particular area --

4 A At least part of it was within a 30-mile
5 radius but we had that along with other areas there.

6 Q Was there some internal bank rule or
7 Arkansas law that dictated a specific area in which
8 most loans had to be made or all the loans?

9 A Well, it wasn't a law but it was kind of a
10 rule that they would be -- we made most of the loans
11 in that immediate area in, like I said, about a
12 30-mile radius.

13 Q Did the bank have any particular limit on
14 loans to individuals?

15 A Well, yeah, they were -- at that time, I
16 think the limit was about \$300,000.

17 Q And do you have any sense of what the
18 extent of the bank's assets were during the 1980s?

19 A What now?

20 Q Do you recall what the size of the bank's
21 assets were during the 1980s?

22 A I don't know exactly what you mean.

1 Q Well, I mean the amount of its deposits,
2 its ability to lend.

3 A It was about in the range of 15 to \$18
4 million.

5 Q Did Governor Clinton bank at the Cherry
6 Valley Bank?

7 A Well, we had his campaign funds at the Bank
8 of Cherry Valley, yeah.

9 Q So his campaign account was at the bank?

10 A Right.

11 Q And did the Bank of Cherry Valley also make
12 loans to the campaign?

13 A Yeah.

14 MR. KRAVITZ: Which campaign are we talking
15 about here, Chris?

16 MR. BARTOLOMUCCI: I was asking generally.

17 BY MR. BARTOLOMUCCI:

18 Q I've read that your bank, the Bank of
19 Cherry Valley, made approximately \$400,000 in loans
20 to Bill Clinton during the 1980s. That was a claim
21 attributed to you. Is that accurate?

22 MR. KRAVITZ: Mr. Smith, hold on one

1 second. Mr. Smith, this is Neal Kravitz from the
2 Democratic staff.

3 Mr. Bartolomucci, I'm going to object to
4 that question. If you want to ask questions that are
5 specifically related to subjects that are set forth
6 in the resolution we're operating under, you will
7 receive no objection from this side of the table.
8 But if you are simply going to ask questions about
9 loans that Mr. Smith is reported to have made to
10 Governor Clinton over a long period of time that have
11 no direct relationship to anything in the resolution,
12 I am going to object.

13 MR. BARTOLOMUCCI: Well, I have to disagree
14 if you're contending that that particular question
15 calls for an answer outside of the resolution. As
16 you must know, the Bank of Cherry Valley both made a
17 loan to Jim McDougal that was directly related to
18 Whitewater, and also McDougal hosted at Madison in
19 1985 a fund-raiser to pay off a debt that Governor
20 Clinton had incurred at the Bank of Cherry Valley.
21 That loan was apparently approved by Mr. Smith. To
22 explore those issues and related issues, it's

1 necessary to get a full picture of the relationship
2 between Mr. Clinton and Mr. Smith and President
3 Clinton's -- or then-Governor Clinton's banking
4 activities at the Bank of Cherry Valley.

5 MR. KRAVITZ: Well, that's not going to
6 happen. If you want to ask Mr. Smith the question
7 whether he made a loan to Governor Clinton of \$50,000
8 in 1984 to assist Governor Clinton's re-election
9 campaign, you can ask him that question. If you then
10 want to ask him some questions about a 1985
11 fund-raiser that may have had some relation to
12 repaying that loan, you can ask those questions
13 within some limits, but if you have any intention of
14 asking Mr. Smith about \$400,000 worth of loans that
15 were made to Governor Clinton or which have been
16 alleged to have been made to Governor Clinton to
17 support legislative initiatives during the 1980s
18 while Bill Clinton was in the governor's position,
19 you can't ask him those questions, and I'm going to
20 object and instruct Mr. Smith not to answer those
21 questions.

22 MR. BARTOLOMUCCI: Again, I think those

1 questions are entirely proper. I don't see how you
2 can ask questions, for example, to Jean Lewis about a
3 personal letter that she wrote prior to her
4 assignment of the Madison case and think that's
5 within the resolution and think that a question about
6 the Bank of Cherry Valley's lending activities with
7 respect to Bill Clinton is outside of it. In both
8 cases, it would go to the nature of their
9 relationship.

10 We're investigating not only -- I mean the
11 specific transactions at issue but also how they fit
12 into the broader web of relationships. If there is
13 some relationship between the \$400,000 loans and the
14 Whitewater loan or the '85 fund-raiser, that's
15 plainly within the scope of our inquiry.

16 MR. KRAVITZ: If you want to ask questions
17 about Whitewater loans, you're free to ask questions
18 about Whitewater loans. I have no objection to your
19 asking questions about Whitewater loans. And if I
20 implied that I did, I didn't mean to. I don't think
21 I implied that, but if I did, I have no objection to
22 your asking questions about that because that is

1 directly within the scope of our resolution.

2 What I do object to and what I will not
3 allow you to do is to ask questions about loans that
4 have nothing to do with Whitewater and that were
5 taken out to assist Governor Clinton's legislative
6 initiatives during his terms as governor.

7 MR. BARTOLOMUCCI: Neil, we don't know that
8 they have nothing to do with Whitewater. It's
9 entirely possible that they were connected in a way
10 that we don't know about at this point. That's the
11 purpose of this deposition. And I'll remind you that
12 the resolution authorizes us to investigate all
13 matters that have any tendency to reveal the full
14 facts about Madison or Whitewater. And I have to say
15 that the lending activities of the Cherry Valley
16 Bank, that would have a tendency to reveal the full
17 facts about Madison or Whitewater, and I don't see
18 how you could contend otherwise.

19 MR. KRAVITZ: Why don't you try to ask more
20 pointed questions and why don't we see if we can get
21 something done here rather than taking up Mr. Smith's
22 time unnecessarily.

1 MR. BARTOLOMUCCI: Well, but first I want
2 to see if he will confirm for our record a statement
3 attributed to him in the press, and I can produce the
4 articles if necessary, to the effect that the Bank of
5 Cherry Valley during the 1980s made approximately
6 \$400,000 in loans to Bill Clinton, both for campaigns
7 and to support legislative initiatives. I mean are
8 you really going to object to a question that goes to
9 something he's been quoted as saying in the press?

10 MR. KRAVITZ: Well, let me just say this.
11 Just because someone has said something in the
12 press --

13 THE WITNESS: Let me say something, will
14 you?

15 MR. KRAVITZ: Go ahead.

16 THE WITNESS: I've been quoted in the press
17 so damn many times and none of it has been accurate.
18 That \$400,000 deal was something that that guy just
19 wrote. I didn't ever quote it, never said that he
20 had \$400,000 in loans. That guy just kept fishing
21 around and carrying around and he wrote his own damn
22 article. I don't care who they attributed it to. 95

1 percent of the quotes they have had of me have been
2 100 percent -- 95 percent of them have been wrong, so
3 I did not say that.

4 MR. BARTOLOMUCCI: So in light of that
5 statement, can I clarify this?

6 MR. KRAVITZ: Let me just say, Mr. Smith, I
7 sympathize with you since it's certainly been our
8 experience here that the press is not always accurate
9 on everything, but let me just say, just because
10 something has been in the press or just because
11 someone has written a book about something doesn't
12 mean that the Senate is authorized to investigate
13 that.

14 You will agree with that, won't you,
15 Chris?

16 MR. BARTOLOMUCCI: Well, I think --

17 MR. KRAVITZ: If we don't have agreement on
18 that, then we're really in trouble here. Why don't
19 you try to ask -- let me just say this. I mean I
20 think that your point about Jean Lewis, although -- I
21 think in some respects was a good point. I think
22 that it's fair to ask questions that will establish

1 the personal relationships or the business
2 relationships in a general way between a witness and
3 a subject of the investigation. And I think that's a
4 good point.

5 Now, if you want to ask very general
6 questions that will go to that point, I think we can
7 take it to a certain extent. I'm not going to allow
8 you to get into any details about loans that may or
9 may not have been made for legislative initiatives.

10 MR. BARTOLOMUCCI: Well, I think at the
11 level of generality I posed it, that it was entirely
12 appropriate. It wasn't going into specific detail
13 about non-Whitewater loans.

14 MR. KRAVITZ: Why don't we try to go ahead
15 in that vein.

16 BY MR. BARTOLOMUCCI:

17 Q In light of the statement that you've made,
18 Mr. Smith, let me try to just clarify this. Are you
19 saying it's inaccurate that the Bank of Cherry Valley
20 loaned approximately \$400,000 to Governor Clinton
21 during the 1980s?

22 A I'm not going to say what -- I don't know.

1 I don't have the records with me. I don't know. We
2 made several loans to him, but I don't know what the
3 amount was.

4 Q Okay. So the part that would be inaccurate
5 is not the fact of the loans but the \$400,000 figure?

6 A Yeah.

7 Q And is it also --

8 A I mean I didn't say that. I don't know
9 whether that's accurate or not. I don't have those
10 records with me.

11 Q Again, I just read that in the press, that
12 you were quoted to that effect.

13 A I read that, too.

14 Q But the 400,000 figure isn't true?

15 A As far as I know, it's not true.

16 Q What about the part of the story that some
17 of the money went to support legislative
18 initiatives? Is that also incorrect?

19 A Can I answer that or not?

20 MR. PORTNOY: Just a moment, Mr. Smith. I
21 think we need to confer for a moment.

22 (Pause.)

1 THE WITNESS: I'm going to take a rest
2 while you're deciding that. I'll be right back.

3 (Discussion off the record.)

4 MR. PORTNOY: If I can state for the
5 record, Mr. Smith, the folks here have discussed the
6 matter while we were off the record and we've agreed
7 that we will have no objection to your responding to
8 Mr. Bartolomucci's question as to whether you know
9 the purpose to which those loans were put.

10 BY MR. BARTOLOMUCCI:

11 Q Right. So there's just one more question
12 here, which is, is it true that some of the loan
13 money that the Bank of Cherry Valley gave to Governor
14 Clinton went to support the governor's legislative
15 initiatives?

16 A On the education, I think that's true.

17 Q All right. Turning to a new subject, can
18 you tell me when you first learned about Whitewater
19 Development Corporation or the Whitewater land
20 investment?

21 A I have no idea.

22 Q What do you remember generally speaking

1 about Whitewater?

2 A I guess most of it started about the time
3 you all started talking about it, the campaign
4 somewhere.

5 Q Have you had any discussions with Jim
6 McDougal about Whitewater to the best of your
7 recollection?

8 A No.

9 Q Have you had any discussions about
10 Whitewater with Bill Clinton?

11 A No.

12 Q Okay. Turning your attention to the Bank
13 of Cherry Valley, we understand that in June of 1980,
14 Mr. McDougal borrowed \$20,000 from the Bank of Cherry
15 Valley. Do you have some familiarity with that loan?

16 A I remember him having a loan there. I
17 don't know exactly what it was, but that may be
18 right.

19 Q Do you remember how this loan came about?

20 A We just loaned it to Jim McDougal, that's
21 all I know.

22 Q Do you remember what the loan was for?

1 A No, I don't.

2 Q Do you remember if this loan went through
3 the usual loan approval process?

4 A Yeah, as far as I recollect, yeah.

5 Q Did you have to sign off on the loan at
6 some point?

7 A Yeah.

8 Q Were you aware of the fact that this loan
9 was related to Whitewater?

10 A No, and I started to say, I didn't know
11 anything about Whitewater at the time.

12 Q Didn't you have some -- didn't you have any
13 discussions with Mr. McDougal about the purpose of
14 the loan?

15 A He just told me he needed to borrow \$20,000
16 to make a payment on something. I didn't -- as far
17 as I knew, I didn't know what it was.

18 Q Do you remember Governor Clinton being
19 involved in the loan at all?

20 A No.

21 Q Do you remember the loan being refinanced
22 several times?

1 A Yes.

2 Q Do you remember --

3 A As I recall, it took him quite a while to
4 pay it off.

5 Q As we understand it, it may not have been
6 paid off until January of '85. Is that consistent
7 with your recollection?

8 A As far as I know. Dates back there don't
9 mean anything to me, but I know it was over a period
10 of time. I don't know what time period, period of
11 time it was.

12 Q Several years?

13 A I think that's true.

14 Q Do you recall Governor Clinton being
15 involved in any of the refinancings?

16 A No.

17 Q I just say this because I'm not trying to
18 hide anything from you, we have a document from April
19 of '82 where the loan was refinanced which appears to
20 have Bill Clinton's signature on it.

21 A If it did, I don't recall it.

22 Q And you don't remember talking to Bill

1 Clinton about the loan?

2 A You just asked me if I remembered it;
3 right?

4 Q Yes.

5 A I said I do not remember Bill Clinton's
6 signature being on it.

7 Q Okay. In the future, just for the benefit
8 of our court reporter, can you make sure before you
9 give your answer that I've finished speaking
10 completely?

11 A Well, I'll try.

12 Q Okay. We appreciate that. You know, we
13 got this funny looking contraption here, this
14 speakerphone, and sometimes it's hard to hear your
15 answer.

16 A Okay.

17 Q Thank you. Would this loan to McDougal
18 have been an out-of-territory loan?

19 A Certainly out of 30 miles, yeah, but he was
20 the only one we ever had out of that area.

21 Q Would that have been problematic for the
22 bank, the fact that it was out of the 30-mile zone?

1 A It would have been if we had had a lot of
2 them that way, but we never had a whole lot of them
3 that way.

4 Q Do you recall whether the Clintons ever
5 made any payments on this loan?

6 A No.

7 Q Do you know who made the payments?

8 A As far as I know, I guess McDougal did. I
9 just don't know. I wasn't there every day, I wasn't
10 in there for the everyday operation of that bank.

11 Q Another Bank of Cherry Valley document that
12 we have and are interested in is a personal financial
13 statement from the governor and Mrs. Clinton. It's
14 dated April of '83. And it mentions the Whitewater
15 investment actually among, you know, the assets.

16 Do you have any memory of this financial
17 statement?

18 A No. I know he had one, but what was on it,
19 I don't recall.

20 Q Do you know why he would have prepared a
21 financial statement in April of '83 for the Cherry
22 Valley Bank?

1 A I guess he needed to borrow some money.

2 Q But this wouldn't have been a
3 Whitewater-related loan; right?

4 A No.

5 Q This would have been some unrelated loan?

6 A It would have been -- yeah, right.

7 Q Do you have any idea why that financial
8 statement would have been submitted to the Security
9 Bank of Paragould in connection with a loan that
10 Governor Clinton took out there?

11 A No, I wouldn't.

12 Q You don't have any knowledge about that
13 Security Bank loan?

14 A No.

15 Q Do you think that you would have reviewed
16 that financial statement?

17 A Do what?

18 Q Do you think that you would have reviewed
19 that financial statement when it was submitted to
20 your bank?

21 A Yeah, me and the rest of the board, too.
22 Yeah.

1 Q Again, the financial statement lists the
2 Clintons as owners in a half interest in 200 acres in
3 Marion County with a \$200,000 mortgage on it,
4 which -- that's presumably the Whitewater
5 investment.

6 A Yeah.

7 Q Does that trigger any memory on your part?

8 A Not a bit.

9 MR. KRAVITZ: Chris, I know Mr. Smith
10 doesn't have a copy of the document that you're
11 referring to, but just for the record, can you tell
12 us what the document is and how it's numbered?

13 MR. BARTOLOMUCCI: Sure. What I'm talking
14 about is a two-page document, it's labeled "Personal
15 Financial Statement, Bill Clinton and Hillary Rodham
16 Clinton," addressed to the Bank of Cherry Valley,
17 dated April 25, '83. And on the second page, it's
18 got -- it lists this, "200 acres Marion," lists that
19 as having a \$200,000 mortgage and a present value of
20 200,000. There doesn't appear to be a Bates number
21 on the document, though. At the top there appears to
22 be 06-6041. That may be some bank notation, but I'd

32

1 be happy to show this to you if you're interested in
2 it.

3 MR. KRAVITZ: Can you tell us what agency
4 produced that, or what person?

5 MR. BARTOLOMUCCI: No, I can't tell you.
6 We can probably figure it out later if that's
7 important.

8 MR. KRAVITZ: Okay. I mean just --
9 Mr. Smith, this is Neal Kravitz again. Let me just
10 say one thing for the record. Because of mechanics
11 of this deposition, unfortunately you're at a little
12 bit of a disadvantage than some other witnesses are,
13 because oftentimes if a witness doesn't remember
14 something that happened 13 years before, we can show
15 a document and that sometimes helps to refresh their
16 memory, but obviously over the telephone we can't
17 show you documents, so all we can ask is that you
18 tell us what you remember.

19 BY MR. BARTOLOMUCCI:

20 Q Right. And where possible, I'll try to
21 describe documents and see if that aids your memory,
22 but at all events, we're just looking for your best

1 recollection.

2 A Yeah, I understand.

3 Q Okay. Moving on now to a new subject
4 matter, what do you recall of the circumstances
5 surrounding the \$50,000 loan that Governor Clinton
6 took out prior to the 1984 gubernatorial campaign?

7 A What do you mean what do I recall about
8 it?

9 Q Well, first of all, you remember that loan
10 generally?

11 A Well, not that particular one. He took out
12 loans during campaigns. I don't recall anything
13 particular about that loan.

14 Q I mean, do you have any reason to doubt
15 that --

16 A I have no reason to doubt it. If you're
17 looking at the loans, I guess you know what they are.

18 Q Do you remember whether the governor
19 approached you about making the loan or how it came
20 to be?

21 A Well, yeah. I mean he had to approach me
22 if he got it, I imagine.

1 Q All right. So in --

2 MR. PORTNOY: Mr. Smith, if I could, I
3 believe Mr. Bartolomucci was asking whether he
4 approached you personally as opposed to approached
5 the bank, and it wasn't clear to me whether that was
6 understood in connection with your response.

7 THE WITNESS: I don't recall whether he did
8 personally or not. It could have been the campaign,
9 whoever was running the campaign.

10 MR. PORTNOY: So are you saying, sir, that
11 you don't actually recall who approached whom and
12 when that might have occurred?

13 THE WITNESS: Right.

14 BY MR. BARTOLOMUCCI:

15 Q Well, since you don't seem to have a great
16 deal of memory about this particular loan, let me ask
17 you this just very broad question. What do you
18 remember about a \$50,000 loan that Clinton received
19 prior to the '84 campaign?

20 A I'll answer you just as broad. I don't
21 remember anything about it.

22 Q Do you know whether the loan was secured?

1 A Probably by his financial statement is all
2 they would have done, I imagine.

3 Q Do you remember the governor submitting a
4 financial statement in connection with the loan?

5 A I don't -- on that, I don't remember, but
6 ordinarily they would have to submit some kind of
7 financial statement. We would have to have some kind
8 of backing.

9 Q Did you say that ordinarily you would have
10 to submit one?

11 A Yeah.

12 Q Do you know when the loan would have been
13 due?

14 A No, I don't.

15 Q And I take it that you did expect the
16 governor to pay this loan off?

17 A That's right.

18 Q Do you know what the loan was used for?

19 A I'm sure he used it in his campaign.

20 Q But do you know in what way it was used in
21 the campaign?

22 A I have no idea. I told you, I wasn't

1 involved in the campaign.

2 Q Because you were still in the executive
3 secretary at the time?

4 A I was still in the governor's office,
5 right.

6 Q Do you remember having any communications
7 with Clinton about this loan?

8 A No, I don't remember.

9 Q All right. Now, do you remember there
10 being a fund-raiser held at Madison Guaranty to pay
11 off this loan?

12 A I remember them having a fund-raiser.

13 Q Okay. We understand that fund-raiser to
14 have occurred on April 4, 1985. Does that date sound
15 right to you?

16 A That sounds about right.

17 Q Did you play any role in organizing that
18 fund-raiser?

19 A No.

20 Q But you were aware that the purpose of the
21 fund-raiser was to pay off the loan at Cherry Valley?

22 A No.

1 Q Your testimony is that you don't remember
2 that being the purpose?

3 A No.

4 MR. PORTNOY: Just for the record, Chris, I
5 don't believe that the testimony that the committee
6 has taken heretofore establishes that that was the
7 purpose of the fund-raiser. I believe that's a
8 matter of some contention, and I just don't want the
9 record to appear to be establishing something that is
10 in fact in dispute.

11 MR. BARTOLOMUCCI: In light of that, let me
12 rephrase the question this way.

13 BY MR. BARTOLOMUCCI:

14 Q Do you know if one of the purposes of that
15 Madison fund-raiser was to pay off the governor's
16 debt at the Cherry Valley Bank?

17 A I do not know that, no.

18 Q Did you attend the fund-raiser?

19 A Yes.

20 Q You did. Did you make a donation?

21 A No.

22 Q Was there any reason why you didn't make a

1 donation?

2 A Well, I was just invited there. I went
3 there and brought the money back to the campaign.

4 Q Oh, you brought -- did you say you brought
5 the money back to the campaign?

6 A Correct.

7 Q Which is to say you collected the checks
8 and --

9 A I didn't collect them, but they gave the
10 checks to me and I brought them back.

11 Q You took them where?

12 A I brought it back to give to the campaign.

13 Q Do you know what person you would have
14 given them to?

15 A I don't know exactly, but I would imagine
16 it would have been Betsey Wright.

17 Q Was Betsey Wright at the fund-raiser?

18 A Not that I recall. She may have been. I
19 don't remember seeing her there.

20 Q Do you remember who gave you the checks?

21 A McDougal.

22 Q McDougal. Do you remember whether you

1 encouraged anyone to come to the fund-raiser or to
2 make donations at it?

3 A I did not.

4 Q Do you know Charles Peacock?

5 A I met him at that fund-raiser.

6 Q Did you know him -- you didn't know him
7 before the fund-raiser?

8 A No.

9 Q And you didn't encourage him to come to the
10 fund-raiser?

11 A I did not.

12 Q Did Charles Peacock give you any checks?

13 A Well, he says he did, so I guess he did.

14 Q Well, let me ask you what you remember.

15 A I remember seeing Charles Peacock there
16 because I knew his brother. His brother was a member
17 of the legislature. He introduced himself and said
18 he was a Republican. That's all I remember about
19 him. I didn't know any of the other people there
20 except McDougal.

21 Q Was it your memory that Charles Peacock
22 made a donation?

1 A I'm sure he did. I guess that's the reason
2 he was there.

3 Q We have in our possession a copy of a check
4 apparently obtained at the fund-raiser bearing the
5 name Ken Peacock. Do you know who Ken Peacock is?

6 A No. Well, I read in the paper, I guess
7 that's his son; right?

8 Q That's what Charles tells us. Do you know
9 if Ken Peacock was at the fund-raiser?

10 A I don't know.

11 Q One question I had, you were appointed to
12 the board of trustees at UA in March of '85?

13 A Yeah.

14 Q Would you have assumed that post by April?

15 A Yes.

16 Q Okay. So then if the fund-raiser was on
17 April 4, '85, you were no longer working in the
18 governor's office?

19 A Correct.

20 Q So you just sort of unofficially handled
21 the checks and gave them to the campaign?

22 A Yeah, that's right.

1 MR. PORTNOY: Can we just clarify whether
2 Mr. Smith is agreeing with the chronology as you've
3 presented it or whether he actually recalls that he
4 was already at the University of Arkansas?

5 BY MR. BARTOLOMUCCI:

6 Q Okay. That's a fair question. I mean, do
7 you remember that during the time of the fund-raiser,
8 you had left your post in the --

9 A I really don't recall. Just give me
10 dates. I don't recall.

11 Q But you do remember that you went on the
12 board of trustees in March of '85?

13 A Yeah, that spring, yeah.

14 Q And I have a press report that indicates
15 that at least you were named to the post in March, so
16 is it your memory that you joined the board soon
17 after your appointment?

18 A To the best of my recollection. I just
19 don't know what the dates were.

20 Q Do you remember feeling funny about being
21 involved in the fund-raiser, given that you were out
22 of the governor's office at that time?

42

1 A Well, what do you mean, "feeling funny"
2 about it?

3 Q Well, I mean isn't that a little odd that
4 you were involved in this fund-raiser?

5 A McDougal was a friend of mine and he asked
6 me to come down there and get the money and take it
7 to the campaign, that's all.

8 Q Fair enough.

9 MR. KRAVITZ: Chris, you're not suggesting,
10 are you, that someone who works for the university
11 can't attend a political fund-raiser?

12 MR. BARTOLOMUCCI: No, I wasn't suggesting
13 that. I just wanted to know what his impression or
14 memory about it was.

15 BY MR. BARTOLOMUCCI:

16 Q Just a couple of general questions. Do you
17 have any memory about how many people attended the
18 fund-raiser?

19 A I don't, really don't.

20 Q Do you remember whether Clinton gave a
21 speech?

22 A I don't even remember Clinton being there

1 when I was there.

2 Q Did you talk to McDougal during the
3 fund-raiser?

4 A Yeah. I think that's where I spent most of
5 my time, was up in his office visiting with him.

6 Q Do you remember what you talked about?

7 A No. Nothing in particular.

8 Q Do you have any idea how much money was
9 raised at the fund-raiser?

10 A I read -- I've forgotten how much it was,
11 but I read somewhere some of you all said it was
12 about \$30,000 and some.

13 Q Well, disregarding what you may have read,
14 do you have your own memory about how much was
15 raised?

16 A From my memory, I don't remember. I just
17 remember there were checks and I took them to the
18 campaign.

19 Q Do you have any idea as to how many checks
20 you were given?

21 A No.

22 Q Were there any cash contributions?

44

1 A No, not that I recall.

2 Q Okay. So you recall only checks?

3 A Right.

4 Q I mean, did they all fit in one envelope?

5 A I don't know. I'm pretty sure they did,
6 but I don't know that for sure.

7 Q Was it your understanding that you were
8 given all the money raised in connection with the
9 fund-raiser?

10 A I don't know that either.

11 Q Did you talk to Peacock at the fund-raiser,
12 where he told you he was a Republican?

13 A Yeah, I met him. That's the first time I'd
14 ever met him.

15 Q Do you remember him saying anything else to
16 you?

17 A Not that I recall.

18 Q Do you remember if former Senator Fulbright
19 was there?

20 A I didn't see him.

21 Q You didn't see him. Did you have any
22 understanding about whether he was supposed to

1 attend?

2 A I don't recall that I did. Like I say, I
3 didn't see him.

4 Q So you weren't expecting him to be there?

5 A I didn't know who was going to be there.
6 They didn't tell me he was going to be there.

7 Q Do you remember receiving a check for \$3000
8 bearing Fulbright's name?

9 A I don't remember any of the names on any of
10 the checks. I don't know whose checks they were.

11 Q And you said that you didn't make a
12 donation; right?

13 A That's right.

14 Q Do you remember Jim Guy Tucker being at the
15 fund-raiser?

16 A No.

17 Q No?

18 A I mean I don't remember him being there. I
19 don't recall him being there when I was there. I
20 don't know as I was there during the whole thing, but
21 I was there.

22 Q What about John Latham?

1 A I don't know John Latham.

2 Q Do you know anything about the allegation
3 that Charles Peacock brought the check bearing his
4 son Ken's name?

5 A No.

6 Q Do you know anything about the possibility
7 that Peacock's contribution was funded by the
8 proceeds of a Madison loan?

9 A No.

10 Q An attorney for Charles Peacock, a man
11 named Greg Hopkins, has reportedly said that in
12 exchange for campaign contributions, Clinton assured
13 McDougal that a state agency was going to lease
14 office space from Madison. Do you know anything
15 about this allegation?

16 A No.

17 Q Could you repeat your answer, please?

18 A Nothing, no. I know nothing about it.

19 Q Do you know if the governor promised or
20 offered to do anything for McDougal in exchange for
21 hosting the fund-raiser?

22 A No, I do not.

1 Q You never had any communications with the
2 governor about that subject?

3 A No.

4 Q Do you know if McDougal asked for anything,
5 asked for any favors for having hosted the
6 fund-raiser?

7 A Not that I know of.

8 Q Have you had any discussions about the
9 fund-raiser in which the subject of Madison leasing
10 office space also came up?

11 A Absolutely not.

12 Q Do you know anything about the possibility
13 that contributors were reimbursed for their
14 donations?

15 A No.

16 Q Do you know if a man named Burt Dickey made
17 a contribution at the fund-raiser?

18 A I do not.

19 Q Do you know Mr. Dickey?

20 A I know him, yes.

21 Q Do you know if he attended the fund-raiser?

22 A I don't recall if he was there. I don't

1 recall. He may have been, but I don't recall.

2 Q Do you know if Ron Owens or Jim Barber were
3 at the fund-raiser?

4 A I do not. I don't recall. The only man --
5 just to shorten this up, the only man that I recall
6 that I knew that I met there was Charles Peacock, but
7 I won't say I was there during the whole thing.

8 Q Do you know if any of the people who made
9 contributions at the fund-raiser were promised state
10 commissions?

11 A I do not.

12 Q Is there any connection in your mind
13 between the fund-raiser and your appointment to the
14 highway department post?

15 A Absolutely not.

16 Q Now, am I correct that the contributions
17 received at the fund-raiser would have to be reported
18 in some kind of document or form?

19 A They should have been.

20 Q And do you know who would have had
21 responsibility for preparing such a form?

22 A I don't know. Whoever was doing that in

1 the campaign, I guess.

2 Q Do you know whether a report was ever filed
3 that covered the fund-raiser?

4 A I do not.

5 Q Have you ever discussed with anyone the
6 possibility that the relevant campaign form is
7 missing from the office where it should be filed?

8 A I do not -- I have not, no.

9 Q Now, we have a copy of a check for \$25,000
10 made out to the Bank of Cherry Valley, a check
11 written by the Bill Clinton Political Committee. We
12 assume that that was to pay off the loan that the
13 governor obtained from the '84 campaign. Are we
14 correct in that assumption?

15 MR. KRAVITZ: Well, why don't you -- can
16 you tell him what the date on the check is?

17 BY MR. BARTOLOMUCCI:

18 Q I meant to. It was May 7, '85.

19 MR. KRAVITZ: Mr. Smith, this is a question
20 that may not be helpful for you. But just for the
21 record, if you could identify the document.

22 BY MR. BARTOLOMUCCI:

50

1 Q Yeah. Let me start with that. It's
2 document number CCBW 0008. It's a May 7, 1985 check
3 signed by Betsey Wright, for \$25,000 and made payable
4 to the Bill Clinton Political Committee.

5 Do you know if that check would have been
6 made to pay down or pay off the loan on Governor
7 Clinton -- pay off Governor Clinton's loan?

8 A Was it made to the Bank of Cherry Valley?

9 Q Can you say that again?

10 A Was it made to the Bank of Cherry Valley?

11 Q Yes, it was.

12 A I imagine that's what it was. I couldn't
13 guarantee that, but I imagine that's what it was.

14 THE WITNESS: I'm going to call time;
15 okay?

16 MR. BARTOLOMUCCI: We'll take a break.
17 Just tell us when you're back.

18 (Recess.)

19 BY MR. BARTOLOMUCCI:

20 Q We're back on the record, Mr. Smith.
21 Thanks for your patience. We were talking about the
22 '85 fund-raiser and the related 1984 loan that

1 Governor Clinton had at your bank. I think the issue
2 I was trying to get at is whether the \$25,000 payment
3 to the Bank of Cherry Valley in May of '85, whether
4 that would have paid off the loan entirely or whether
5 there was still some debt outstanding after that.

6 A I really do not know.

7 Q I want to ask you to think hard. Can you
8 remember the amount of the loan? I mean we believe
9 it was \$50,000.

10 A Well, that could be true. I don't remember
11 those things. I don't have any records here with me.

12 Q Do you remember if the loan was partially
13 paid off before the fund-raiser?

14 A I tell you, I don't know. I wasn't
15 involved in running that campaign, so I don't know.

16 Q Well, now, just to refresh your
17 recollection and make sure this is clear, the
18 fund-raiser was in 1985 after the campaign.

19 A Yes.

20 Q It was to pay off a debt from the '84
21 campaign, so, you know, whether it was exclusively
22 the campaign running the show there is a question.

52

1 A What do you mean?

2 Q Well, let me just ask you this way. Do you
3 know if the loan was ultimately paid in full?

4 A After some period, I'm sure it was.

5 Q Are you assuming that it was paid off or do
6 you have a specific memory of it being paid off?

7 A I have no specific memory, no.

8 Q Now, with respect to the fund-raiser, do
9 you know anything about donations having been made in
10 the names of persons other than those who allegedly
11 made the donations? That may be a little confusing.
12 Let me rephrase that.

13 Do you know whether anyone secretly paid
14 for donations in the name of someone else?

15 A No.

16 Q All right. And do you know whether anyone
17 was given state jobs in exchange for contributions?

18 A No.

19 Q I want now to see what sort of
20 conversations you may have had in recent years about
21 these same subject matters. You told me that you
22 didn't have any role during the 1992 presidential

1 campaign; is that right?

2 A That's right.

3 Q During the '92 campaign, did you speak with
4 anyone about Whitewater, Madison or the Bank of
5 Cherry Valley?

6 A Nobody.

7 Q Did you speak with anyone during the '92
8 campaign about the fund-raiser?

9 A Nobody.

10 Q Okay. And you have no memory about talking
11 about those subjects with Betsey Wright?

12 A Nobody.

13 Q Or Bruce Lindsey, Loretta Lynch?

14 A I don't know a Loretta Lynch.

15 Q What about Patsy Thomasson?

16 A No.

17 Q Did you ever provide any documents to the
18 '92 campaign?

19 A No.

20 Q Were you asked to review any documents by
21 the campaign?

22 A No.

1 Q All right. After -- subsequent to the
2 election, have you spoken with anyone at the White
3 House about Whitewater or Madison or the Bank of
4 Cherry Valley or the fund-raiser or any of that
5 stuff?

6 A No.

7 Q Again, with respect to those subject
8 matters, you never talked to Bruce Lindsey or anyone
9 at the White House?

10 A No.

11 Q Do you know who Mr. Millium is?

12 A No. Do you want to tell me? I don't know
13 him.

14 Q We don't know either. That's why I was
15 asking. Have you talked to Bill Clinton since the
16 election?

17 A Sure.

18 Q Have you talked about any subjects relating
19 to Whitewater or Madison or the Bank of Cherry
20 Valley?

21 A No.

22 Q Am I correct that you visited the White

1 House in March of '94?

2 A That's probably true, yes.

3 Q You did visit the White House?

4 A I was at the White House, yes.

5 Q And on that occasion, you didn't have any
6 discussions about Whitewater or Madison or the Bank
7 of Cherry Valley?

8 A If we did, I don't recall it. If you all
9 were investigating Whitewater at that time, I might
10 have asked him how he was getting along, but that's
11 about all. We didn't have any detailed discussion.

12 Q Have you ever been contacted by the press
13 to discuss these matters, Madison or Whitewater or
14 the Cherry Valley stuff?

15 A Oh, yeah, you read some of it.

16 Q Okay. But it was only press people who
17 have contacted you and no one in the government?

18 A Nobody in the government.

19 MR. BARTOLOMUCCI: I think that's all the
20 questions I have for you right now so we're going to
21 turn it over to my colleagues here at the Senate,
22 Mr. Kravitz and Mr. Portnoy, and then when they are

56

1 finished, it will be Mr. Brenner's turn and then we
2 will see if there's any follow-up stuff that needs to
3 be done after that.

4 MR. PORTNOY: Mr. Smith, I apologize for
5 the delay. This is Jim Portnoy. We're going to take
6 about a minute or two to just confer and then we'll
7 be right back with you, sir.

8 THE WITNESS: Okay.

9 (Recess.)

10 MR. KRAVITZ: Mr. Smith, are you there?

11 THE WITNESS: Yes.

12 EXAMINATION

13 BY MR. KRAVITZ:

14 Q This is Neal Kravitz on the Democratic
15 staff. Just so you know exactly what we're doing
16 here, I guess Mr. Bartolomucci for the Republican
17 staff has finished his set of questions and now I'm
18 going to ask you just a few follow-up questions on
19 the same subjects and probably take no more than
20 three or four minutes, and then I think the next
21 Republican counsel will get to ask you some questions
22 on some different subjects. Okay?

1 A All right.

2 Q You were asked about a loan that
3 Mr. McDougal took out at the Bank of Cherry Valley in
4 1980.

5 A Yes.

6 Q And as I recall your testimony, you stated
7 that at least to your recollection, Bill Clinton had
8 no involvement in the taking out of that loan; is
9 that correct?

10 A That's correct.

11 Q To the best of your memory, did Hillary
12 Clinton have any involvement in the taking out of
13 that loan from the Bank of Cherry Valley in 1980 that
14 Mr. McDougal took out?

15 A No.

16 Q You also testified that to your
17 recollection, Mr. McDougal refinanced that loan that
18 he had taken out in 1980 on several occasions, and I
19 believe your testimony was that although
20 Mr. Bartolomucci described the document to you that
21 Bill Clinton had signed sometime, I think it was in
22 1983, you had no recollection of Bill Clinton being

1 involved in any of those refinancings; is that
2 correct?

3 A That's correct.

4 Q Do you have any recollection of Hillary
5 Clinton having any involvement in the refinancings of
6 that loan that Mr. McDougal originally took out in
7 1980 at the Bank of Cherry Valley?

8 A No, I have no recollection of that.

9 Q When Mr. Bartolomucci was asking you
10 questions about the 1985 fund-raiser that you
11 attended at the Madison Guaranty offices, he asked
12 you a series of questions about whether you
13 remembered being given a check that had Senator
14 Fulbright's name on it, and I believe you testified
15 that you did not remember receiving a check with
16 Mr. Fulbright's name on it, and in fact you didn't
17 remember any of the names that were on any of the
18 checks that you were given that day; is that correct?

19 A That's right.

20 Q Let me ask you this. I mean, did you have
21 any reason to study the checks that you were given to
22 see who had made contributions or were you really

1 just a messenger carrying the checks from the
2 fund-raiser?

3 A I was just a messenger carrying them. I
4 didn't have any reason to go through them.

5 Q And so is it your memory that you actually
6 did not look at the checks to see who had given
7 money?

8 A To the best of my recollection, I never
9 looked at them.

10 Q Let me ask you a couple of questions about
11 Jim McDougal. You testified you've known
12 Mr. McDougal since the time that he was working for
13 Senator Fulbright.

14 A Right.

15 Q So that was a long time ago.

16 A Right.

17 Q Mr. McDougal has been described to us as
18 someone who is a big talker, a bragger, someone who
19 brags a lot about his connections with politicians
20 and other powerful people. Would you agree with that
21 description?

22 A I'd say that's about the truth.

60

1 Q You also testified that during the 1985
2 fund-raiser at Madison Guaranty Savings & Loan, you
3 spent most of your time in Mr. McDougal's office
4 speaking with him.

5 A Right.

6 Q Do you remember how long a time
7 approximately you were with Mr. McDougal that day?

8 A I don't know. It's been so long ago, I
9 don't know. I'd say I guess somewhere between 30
10 minutes and an hour.

11 Q And was it just the two of you talking?

12 A Yeah. We just really went up there to
13 smoke a cigarette.

14 Q During any of that time that you spent with
15 Mr. McDougal up in his office talking and smoking
16 cigarettes together during the 1985 fund-raiser, did
17 Mr. McDougal say anything to you to indicate that
18 Bill Clinton had made any promises to him in return
19 for Mr. McDougal's holding this fund-raiser?

20 A Not that I recall. Not that I recall.

21 MR. BARTOLOMUCCI: Your testimony was you
22 don't recall?

1 THE WITNESS: I do not recall, no. I do
2 not recall anything like that.

3 MR. KRAVITZ: Mr. Smith, that's all I have
4 at this point, so thank you.

5 MR. BRENNER: Just switching seats. It's
6 Mark Brenner. How are you doing, Mr. Smith?

7 THE WITNESS: Fine.

8 EXAMINATION

9 BY MR. BRENNER:

10 Q I'm going to ask you about some areas that
11 weren't previously covered. Can you hear me okay?

12 A Yeah.

13 Q Do you know Dan Lasater?

14 A Yeah.

15 Q When did you first meet Dan?

16 A Oh, I don't know what year it was. I've
17 known him for quite a while.

18 Q Could you roughly -- since before, say,
19 1983?

20 A Oh, yes.

21 Q Sometime in the '70s?

22 A Yeah, probably. When he was racing horses,

62

1 I used to go to the horse races.

2 Q And do you remember who you met him through
3 or who introduced you?

4 A No, I don't.

5 Q Now, did you have a relationship with him
6 as, say, a friendly relationship due to the horse
7 farming?

8 A No, I just knew him because he had a horse
9 farm out in Florida, and I've been down there to a
10 couple of sales.

11 Q So you two raised horses?

12 A I did at that time. I don't anymore.

13 Q Did you know that Roger Clinton worked for
14 Lasater at one of his horse farms?

15 A I recall something about that, but I don't
16 know what he did.

17 Q Do you know Patsy Thomasson?

18 A Yes.

19 Q And how do you know Patsy Thomasson?

20 A Well, she was on the highway commission. I
21 served on the Arkansas Highway Commission back in
22 1965 to '75, and when David Pryor became governor, he

1 appointed her to the highway commission.

2 Q So you met her on the highway commission?

3 A Yes.

4 Q And were you on the highway commission at
5 the same time as Patsy Thomasson?

6 A No, I had just gone off the highway
7 commission when she came on.

8 Q So you met her at that point?

9 A Yes.

10 Q And so from 1975 through the 1980s, did you
11 maintain contact with Patsy Thomasson?

12 A Yes, I knew her.

13 Q Were you friendly? Were you friends?

14 A Yeah, she's my friend.

15 Q Do you still talk to Patsy Thomasson?

16 A Yes, every once in a while.

17 Q Do you consider yourself friendly with Dan
18 Lasater?

19 A I haven't seen Dan Lasater in years.

20 Q Have you talked to Dan Lasater in years?

21 A Haven't seen him since he got out of
22 prison.

1 Q And that was around 1986?

2 A I don't know what year that was. That
3 sounds about right.

4 Q During the time you were at the governor's
5 office in the 1980s, did you have anything to do with
6 any bond underwriting issues?

7 A No.

8 Q I'm sorry. Could you repeat that?

9 A No, I didn't have anything to do with that.

10 Q Did you ever deal with any matters with Dan
11 Lasater?

12 A No.

13 Q Did you ever go to the Lasater & Company
14 offices?

15 A Back in those days, not that I recall. I
16 could have, but not that I recall offhand.

17 Q Well, at any time.

18 A No, I don't believe -- I might have gone to
19 pick up Patsy Thomasson for lunch or something like
20 that. She worked for him, but that would be all.

21 Q And how often did you see Ms. Thomasson?

22 A Well, I'd see her every once in a while,

1 maybe every month or so.

2 Q This is between the period, say, 1982 and
3 198 -- when you left the governor's office in or
4 around March of 1985.

5 A Yeah.

6 Q Would you go, say, once every other week?

7 A No. About once a month or something like
8 that.

9 Q About once a month?

10 A Yes.

11 Q Would you often go to her offices at
12 Lasater & Company?

13 A Well, I may have gone there one time.

14 Q Did she usually come down to the capitol?

15 A I'd meet her at some restaurant or
16 something like that.

17 Q Do you recall any conversations you had
18 with Dan Lasater relating to any bonds?

19 A No.

20 Q Do you recall having any conversations with
21 George -- Mr. Collins or Mr. Locke?

22 A No.

1 Q Have you ever met Mr. Collins?

2 A Not that I know of. I know Locke, but I
3 don't know -- I don't believe I've ever met Collins.

4 Q How do you know Locke?

5 A He used to be in the Arkansas Senate.

6 Q Did you ever speak to Mr. Collins,
7 Mr. Locke, Mr. Lasater or Ms. Thomasson about any
8 fund-raising activities?

9 A I don't recall. I might have talked to
10 Patsy Thomasson about one.

11 Q Did you do any fund-raising for the
12 governor?

13 A Did I?

14 Q Yes, sir.

15 A I helped with it.

16 Q Did you do any fund-raising for the
17 governor with Mr. Lasater or any of his associates?

18 A No.

19 Q Did Mr. Lasater ever come to visit the
20 governor that you recall in either the governor's
21 office or the governor's mansion?

22 A I've seen him in the governor's office,

1 yeah.

2 Q You seen him once or a couple of times?

3 A I don't recall exactly. Could have been
4 once or twice.

5 Q May it have been more than once or twice?

6 A I don't think it's over a couple of times
7 while I was there.

8 Q And how about Ms. Thomasson?

9 A She used to come by.

10 Q About how often would she come by?

11 A You know, she worked the legislature out
12 there. When she was on the highway commission, she'd
13 come by the governor's business and just visit.

14 Q I'm sorry. Could you speak up?

15 A I said she worked the legislature when she
16 was on the highway commission. They were always
17 lobbying for funds, and she would come by the
18 governor's office to visit.

19 MR. PORTNOY: Can we specify, please, Mark,
20 whether the times that Ms. Thomasson visited the
21 governor's office were while she was working for the
22 state or while she was working for Lasater.

68

1 Mr. Smith, could you clarify for the
2 record, please, if you know, whether Patsy Thomasson
3 was working for Mr. Lasater when she visited the
4 governor's office or whether she was working for the
5 state?

6 THE WITNESS: Well, I couldn't tell you
7 offhand. When she visited me in the governor's
8 office, she always worked for the state.

9 MR. KRAVITZ: When he says he saw Lasater
10 in the governor's office, does he mean in Bill
11 Clinton's office or in the office of the governor?

12 BY MR. BRENNER:

13 Q When you saw Mr. Lasater, was he going to
14 the governor's office in particular or the suite of
15 governor's offices where say you worked and
16 Ms. Wright worked?

17 A Well, I've seen him in the governor's
18 office in particular.

19 Q I appreciate you clarifying that for the
20 record. Did you ever sit in on any meetings with
21 Mr. Lasater or any of his associates and the
22 governor?

1 A I could have.

2 Q Could you describe your relationship with
3 Betsey Wright at the time that you worked in the
4 governor's office?

5 A She and I worked together in there. I knew
6 her -- I got along with her very well.

7 Q Did either of you answer to anyone other
8 than the governor?

9 A No.

10 Q It's been described by certain individuals
11 in testimony that Ms. Wright ran, say, the day-to-day
12 operations of the governor's office and you were the
13 person who was the outreach person who communicated
14 with business people and who was more of a policy
15 initiative person. Is that a fair characterization
16 of the working relationship?

17 A That's fair.

18 Q Have you ever heard of the police radio
19 network bond underwriting?

20 A Yes.

21 Q When do you remember hearing about that?

22 A Do you want a date?

70

1 Q Roughly.

2 A Back in the '80s. I don't know what date.

3 Q I'm sorry. Could you repeat that?

4 A It was back in the '80s. I don't know what
5 date it was.

6 Q I'm not trying to hide the ball. I just
7 wanted to say that at this point I am looking for and
8 am going to find a January 4, 1985 letter from Paul
9 Young, Jr. Do you know who Paul Young is?

10 A No.

11 Q If I tell you that he at that time was
12 working at T.J. Raney & Sons, would that refresh your
13 recollection?

14 A I know what T.J. Raney & Sons is. I don't
15 know him.

16 Q And it's addressed to David Moseley, but
17 your name, M. Smith, is in the top right-hand
18 corner. Now, I want to be clear for the record
19 because --

20 A Well, come back again. I don't understand
21 you now.

22 Q I'm sorry?

1 A Tell me that again, what you're saying.

2 Q This is a letter that was addressed to
3 Mr. David Moseley at the Arkansas State Police about
4 the proposed acquisition of new radio communications
5 equipment.

6 A Okay.

7 Q It appears that a copy of it was forwarded
8 to the governor's office and that your first initial
9 and name were written in handwriting by an
10 individual, M. Smith, and then underlined, and that
11 you probably received a copy of this letter. Is that
12 a more clear description?

13 A You know, I don't recall. I don't recall
14 those people, so I don't know.

15 Q Now, I want to clarify for another reason.
16 There was an MAS who worked in the governor's office,
17 the initials MAS.

18 A Yes.

19 Q That was a woman. Do you know who that
20 was?

21 A MAS?

22 Q Mary Ann?

1 A Mary Ann Salmon, S-a-l-m-o-n, I believe.

2 Q So when things were addressed to you in the
3 governor's office, they were addressed to either M.
4 Smith or Maurice Smith or MS?

5 A Yes.

6 Q I just want to be clear so as we go through
7 our documents it's apparent to everybody which
8 documents were addressed to you and which documents
9 were addressed to other people.

10 A Okay.

11 Q This particular letter talks about
12 T.J. Raney & Sons, Lasater & Company and E.F. Hutton
13 wanting to be involved in the bond underwriting for
14 the Arkansas State Police. Did you ever have any
15 discussions related to the Arkansas State Police bond
16 underwriting?

17 A Not that I recall. It's a possibility, but
18 not that I recall.

19 Q Do you recall ever talking to Mr. Lasater
20 or anyone from Collins, Locke & Lasater or Dick
21 Morris about any bond underwriting?

22 MR. KRAVITZ: Any bond underwriting or for

1 the police radio commission?

2 MR. BRENNER: Any bond underwriting.

3 THE WITNESS: I never talked to Dick Morris
4 but I don't know whether -- I might have been in on a
5 conversation with -- in a meeting with Lasater
6 talking to Clinton about it. I didn't have any
7 conversations about it. I never talked to Dick
8 Morris about it.

9 BY MR. BRENNER:

10 Q There's a series of memos in the governor's
11 office and scheduling that reflects that on January
12 10, 1985 there was a meeting at the Legacy Hotel. Do
13 you know where the Legacy Hotel is?

14 A Do I know where it is?

15 Q Yes, sir.

16 A Yeah.

17 Q Where is it?

18 A Right down there across from the federal
19 building.

20 Q Across from the federal building?

21 A Yes.

22 Q And the meeting it says, it says that

1 the -- from the notes we have that the meeting was
2 attended by E.F. Hutton representatives, Dan Lasater,
3 and it's reflected on the governor's schedule of
4 January 10 that at 6:00, that the governor and Betsey
5 Wright and you attended this meeting at the Legacy
6 Hotel.

7 Do you recall attending any meeting at the
8 Legacy Hotel with Dan Lasater?

9 A I don't recall it but I could have, yeah.
10 I'm not saying I didn't go. I just don't recall.
11 When was that?

12 Q It was January 10, 1985.

13 A I don't recall.

14 Q Do you know what the Mount Hood Pension
15 Fund was?

16 A Who?

17 Q Mount Hood Pension Fund.

18 A No.

19 Q There's a letter of December 14, 1983
20 written by Dan Lasater to the governor, and you are
21 carbon copied. You were cc'd on the letter.

22 MR. KRAVITZ: Is there a Bates number on

1 that?

2 BY MR. BRENNER:

3 Q The Bates numbers are DKS N 027455 and DKS N
4 027456. And there's a series of statements made in
5 this, and in one of them it talks about "with regard
6 to the personal securities owned by Mount Hood
7 Pension Fund, National Investors Life Insurance and
8 National Investors Pension Fund, we have been working
9 hand in hand with their personnel toward an orderly
10 sale of their holdings."

11 And apparently, Mr. Lasater and then
12 Governor Clinton discussed that there's a rumor that
13 First Boston and Stevens, Inc., would be appointed at
14 the 1st of the year to consummate any future
15 transactions in this portfolio.

16 Do you remember any discussions about any
17 of those matters?

18 A I do not.

19 Q Do you recall attending any meetings where
20 any discussions of such matters were discussed?

21 A I mean I never heard of it. I mean I
22 probably heard of it, but I don't recall it.

1 MR. KRAVITZ: Mr. Smith, if you just --
2 this is Neal Kravitz again. If you just bear with me
3 a moment, I just need to make a brief comment on the
4 record.

5 THE WITNESS: I need to take another break
6 anyway.

7 MR. BARTOLOMUCCI: Why don't we do it off
8 the record.

9 MR. KRAVITZ: I want to say something very
10 briefly on the record. Mr. Brenner, I didn't object
11 to that question initially because I assumed without
12 knowing that the document that you were referring to,
13 this letter itself, referred to an issue of a bond
14 underwriting contract between Lasater & Company and
15 the Arkansas Development Finance Authority or its
16 predecessor agency. Had I known that the letter did
17 not refer to such a contract, I would have objected.
18 I don't think we need to have a big argument about it
19 since the answer was what it was and you're moving
20 on, but I just want the record to reflect that I
21 would have objected had I known what the letter
22 referred to at the time.

1 MR. BRENNER: I would like to make a brief
2 statement on the record myself, and I'll keep it
3 short because I know it costs us per page. This was
4 a document produced by David Kendall, in the files of
5 the President and the First Lady. He decided it was
6 relevant to our document subpoena; that I believe the
7 Democrats agreed to.

8 Also, this letter talks about, for those
9 people who don't have it in front of them, various
10 appointments which we will also be discussing, but it
11 certainly goes to the nature of relationship between
12 Lasater & Company and the governor's office. And
13 I'll read it for those of us who don't have it in
14 front of them. I know Mr. Bartolomucci and I do.
15 "That faced with the reality, we hope you will be
16 able to take the initiative and strongly suggesting
17 that Lasater & Company may be included with First
18 Boston and Stevens Inc. as third comanager in this
19 liquidation."

20 So it goes to the relationship between the
21 governor's office and Lasater & Company, which I
22 think is relevant to the resolution.

1 MR. BARTOLOMUCCI: Off the record.
2 (Discussion off the record.)

3 BY MR. BRENNER:

4 Q We're back on the record. There were a
5 couple of transactions in late January and later in
6 1985, Mr. Lasater was seeking certain bond work for
7 the University of Arkansas. Did you deal with that
8 at either the governor's office or when you went to
9 the board at the University of Arkansas?

10 A I did not.

11 Q Did you ever have any meetings with
12 Mr. Lasater about any bonds for the University of
13 Arkansas?

14 A I did not.

15 Q That includes your tenure at the
16 university?

17 A Right.

18 Q Okay. Just wanted to be clear.

19 A Right.

20 MR. PORTNOY: Off the record for a second.
21 (Discussion off the record.)

22 BY MR. BRENNER:

1 Q Back on the record. Are you aware that
2 Mr. Lasater was convicted of a crime on 12/18/1986?
3 A Convicted of what now?
4 Q A crime.
5 A Yeah. Well, I know he was convicted of
6 dope of some kind.
7 Q Do you know any more about this?
8 A No. I mean, I know he went to prison.
9 Q And do you recall acting as a reference for
10 a subsequent pardon by Governor Clinton?
11 A I could have.
12 Q You don't recall being approached about
13 this or asked about this?
14 A I remember -- yeah. I don't remember -- I
15 remember.
16 Q Do you know who Dr. Charles Logan is?
17 A No.
18 Q Do you know who Judge Lee Munson is?
19 A Lee Munson. He used to be a judge in
20 Little Rock, I guess, but I don't know him.
21 Q Did you ever have any discussions with
22 then-Governor Clinton about the pardon since your

1 name was a reference?
2 A Could have, I don't know.
3 Q Could you repeat that?
4 A As I recall, he wanted to go duck hunting
5 and he wanted to get a pardon to use his gun again.
6 Q But you don't recall the specifics?
7 A I do not, no.
8 MR. KRAVITZ: I'm not sure -- I think there
9 may be a misunderstanding what the exact question
10 was. I think the question was, Mr. Smith, whether
11 you remembered speaking with Governor Clinton
12 specifically about Mr. Lasater's pardon application.
13 THE WITNESS: You know, I could have. As I
14 recall, he wanted -- he belonged to some duck club
15 and he wanted to go duck hunting and he couldn't use
16 a gun as long as he was on parole.
17 BY MR. BRENNER:
18 Q Mr. Lasater wanted to go duck hunting, but
19 do you recall speaking to then Governor Clinton about
20 it?
21 A I don't recall it offhand, but I may have.
22 Q Do you recall speaking to Betsey Wright or

1 anybody else from the governor's office?

2 A I don't know. I may have spoke to Clinton
3 himself. I don't know. I recall the incident.

4 Q Did you ever help in any fund-raising
5 activities for the governor that Mr. Lasater was
6 involved in?

7 A No.

8 Q We have information that around 1984,
9 Mr. Lasater raised approximately \$50,000 for the
10 governor's re-election. Are you familiar with any of
11 that fund-raising?

12 A I remember he had one, yes.

13 Q You do remember he had one?

14 A Yes.

15 Q And do you remember if that was at Trapnall
16 Hall, does that sound right to you?

17 A That's right. That sounds right.

18 Q Do you remember how many people were
19 present?

20 A I don't know. It was a big crowd. I don't
21 know how many was there.

22 Q At what point did you meet Web Hubbell?

1 A Well, I knew who he was for a long time. I
2 never had anything to do with him.

3 Q Did you ever meet him related to any
4 campaign work?

5 A No.

6 Q Do you recall, have you met Mr. Hubbell?

7 A Yeah, I met him.

8 Q When did you meet him?

9 A I don't know it's been years ago.

10 Q I'm sorry?

11 A It's been years ago. I don't know the
12 exact date.

13 Q In the '70s when he was mayor, maybe?

14 A Could have been. Could have been. That's
15 probably when it was.

16 Q And just so the record is clear, you met --
17 the name Jim Guy Tucker was mentioned earlier. When
18 did you first meet Jim Guy Tucker?

19 A I guess it's when he ran for Attorney
20 General or whatever year that was.

21 Q Does 1976 sound about right?

22 A Before that I think.

1 Q It was before that?
2 A Yeah. Clinton ran for Attorney General in
3 1976.
4 Q Yeah, you're right. So sometime before
5 1976?
6 A Right.
7 Q What sort of relationship do you have with
8 Mr. Tucker?
9 A I don't have any.
10 Q Turning back to the Trapnall Hall
11 fund-raiser, do you recall any of the people present
12 at that fund-raiser?
13 A No.
14 Q Do you remember if the governor attended?
15 A I do not.
16 Q But it was a large fund-raiser?
17 A Right.
18 Q And you attended?
19 A Right.
20 Q And Mr. Lasater was one of the organizers?
21 A That's right.
22 Q And there were more than a hundred people

84

1 there?
2 A I would guess that's true.
3 Q Have you ever been to Quapaw Towers
4 apartment to meet with Mr. Lasater?
5 A No.
6 Q I'm sorry?
7 A No.
8 Q Did you ever overhear anybody from the
9 governor's office, including the governor himself,
10 talking about going to Quapaw Towers apartments to
11 meet with Mr. Lasater?
12 A No.
13 Q Or to meet with anybody from Lasater &
14 Company at Quapaw Towers apartments?
15 A No.
16 MR. BRENNER: Excuse me for one second.
17 (Pause.)
18 BY MR. BRENNER:
19 Q I would like to talk to you just briefly
20 about the Arkansas Development Finance Authority
21 leases of space from Madison Guaranty. Are you aware
22 that in 1984, the Arkansas Housing Development

1 Agency, the predecessor to the Arkansas Development
2 Finance Authority, leased space from Madison?

3 A I know they were there at one time, yes.

4 Q You knew they were there at one time?

5 A Yes.

6 Q Did you ever talk to anyone about the fact
7 that they were there or prior to their moving there?

8 A No.

9 Q Do you know Paul Mallard?

10 A Yes.

11 Q And how do you know Paul?

12 A He was the head of building services at one
13 time.

14 Q Do you have a friendly relationship with
15 Mr. Mallard?

16 A I haven't seen him in a long time, but
17 yeah, I had met him.

18 Q You did back say between 1984 and 1985?

19 A Yeah.

20 Q And do you know Wooten Epes?

21 A Yes.

22 Q How do you know Mr. Epes?

1 A He was a director, I guess, of ADFA or
2 whatever it was at one time.

3 Q And as head of the Arkansas Development
4 Finance Authority, Mr. Epes has made statements that
5 he did not want to move into the Madison Guaranty
6 space. Do you know anything about that?

7 A No.

8 Q Did you ever see a letter or have a
9 discussion with anyone that you can recall about the
10 fact that the Arkansas Development Housing Authority
11 went -- moved to the Madison space?

12 A Not that I recall.

13 Q Did Mr. McDougal ever contact you or did
14 you ever hear about Mr. McDougal contacting anyone
15 about the state leasing office space from either him
16 or from Madison?

17 A Not that I know of.

18 Q Did you ever have any meetings that you can
19 recall with Jim McDougal or Susan McDougal about the
20 leases?

21 A No.

22 Q How about the governor?

1 A No.

2 Q Betsey Wright?

3 A Not that I recall.

4 Q Sam Bratton?

5 A No.

6 MR. KRAVITZ: I'm sorry to interrupt. I'm
7 a little bit confused about the question. Are you
8 asking Mr. Smith whether he had any meetings with the
9 governor or Sam Bratton or whether he knows that the
10 McDougal had any meetings with those people?

11 BY MR. BRENNER:

12 Q I'm asking if you had any meetings,
13 Mr. Smith.

14 A Not that I recall.

15 Q Okay. Are you aware of any meetings
16 between Jim and Susan McDougal or any of the people I
17 just mentioned related to the office space?

18 A No, I don't recall any meetings, period,
19 about the office space.

20 Q Did the governor ever express an opinion to
21 you that it might be nice if the state or a state
22 agency leased space from Madison?

1 A No.

2 Q Did you know about the governor's effort to
3 rehabilitate the area of town that Madison was in?

4 A Did I know what now?

5 Q To help to rehabilitate the area that the
6 Madison office space was in?

7 A I don't know, but it sure needed it.

8 Q I want to turn to generally the governor's
9 office.

10 Do you need a break?

11 A No. Do you?

12 Q No.

13 (Laughter.)

14 When did you first meet Sam Bratton?

15 A He worked in the governor's office back
16 early, back when Clinton was first elected to
17 governor, I think. That's when I met him.

18 Q When do you recall last speaking to
19 Mr. Bratton?

20 A I haven't seen him in a couple of years. I
21 don't know. Maybe longer.

22 Q Did he answer to you when he was at the

- 1 governor's office when you were there?
2 A No, he was the governor's attorney.
3 Q So he answered directly to the governor?
4 A Right.
5 Q And perhaps on some issues to Betsey
6 Wright?
7 A Yeah.
8 Q When did you first meet David Hale?
9 A I don't think I ever met David Hale.
10 Q Never met David Hale?
11 A No.
12 Q Now, while you were working for the
13 governor, did you ever have the occasion to meet an
14 Arkansas state trooper by the name of L.D. Brown?
15 A Yeah.
16 Q When did you first meet Mr. Brown?
17 A He was on the governor's security for a
18 while. I don't know what dates it was.
19 Q Were he and the governor friendly?
20 A At one point, yeah.
21 Q One of your jobs in the governor's office
22 was working on the appointment of individuals to
-

- 1 various state agencies; is that correct?
2 A That's correct.
3 Q Did that include Arkansas Development
4 Housing Authority and the Arkansas Development
5 Financing Authority?
6 A Yes.
7 Q And the banking department?
8 A Yes.
9 Q And the securities commission?
10 A I don't think I had anything to do with
11 securities.
12 Q You had no input on the securities
13 commission?
14 A No.
15 Q What about for the securities commissioner?
16 A No.
17 Q How about the savings and loan board?
18 A I don't recall that.
19 Q What about the highway commission?
20 A Yeah.
21 Q Have you ever met Herby Branscum?
22 A Yes.

1 Q When did you meet Mr. Branscum?

2 A I don't know for sure. Back in the '70s.

3 Q Did you ever work with him on the highway
4 commission?

5 A Yeah, he was on the commission when I was
6 director.

7 Q Do you know when Mr. Branscum was appointed
8 to his position on the highway commission?

9 A I guess it might have been '91. I believe
10 it was then.

11 Q That's about right. Have you ever met
12 Mr. Branscum's partner, Mr. Hill?

13 A I could have, but I don't really recall
14 it. Maybe I did.

15 Q Are you aware that the Independent Counsel
16 has issued indictments against Mr. Branscum and
17 Mr. Hill?

18 A Yes.

19 MR. PORTNOY: Actually, it's grand juries
20 that hand down indictments rather than the
21 Independent Counsel.

22 BY MR. BRENNER:

1 Q I apologize. The grand jury indictment
2 against Messrs. Branscum and Hill. One of the
3 statements in the indictment was that there were some
4 allegedly illegal campaign contributions by
5 Messrs. Branscum and Hill. Are you familiar with
6 that allegation?

7 A I read it in the paper.

8 Q You read it in the paper. Do you know how
9 Mr. Branscum came to be appointed to the highway
10 commission?

11 A What do you mean?

12 MR. KRAVITZ: Mr. Smith, can you just hang
13 on for one second? I need to object to that
14 question.

15 That is, in my view, outside the scope of
16 the Senate resolution we're operating under. As you
17 know -- as you may know -- I don't know if you know
18 that or not -- this very issue is the subject of some
19 disagreement regarding document subpoenas that have
20 been --

21 MR. BRENNER: I am aware of it.

22 MR. KRAVITZ: Okay. Let me just finish

1 what I'm saying. That have been proposed by the
2 Majority staff and that have been the subject of some
3 negotiation going back and forth, and that I expect
4 will be the subject of possibly one or more votes of
5 the committee this week. It seems to me that it may
6 be that one easy way to do this since Mr. Smith is on
7 the telephone, we could always call him back
8 depending on how this comes out, but I don't know
9 that it makes sense to go into questions that are
10 clearly in dispute as to scope.

11 MR. BRENNER: Just one minute, Mr. Smith.

12 THE WITNESS: Okay.

13 MR. BARTOLOMUCCI: Could we ask him a
14 general question, see whether he has any knowledge at
15 all? Because if he doesn't, then we can just set it
16 aside.

17 MR. KRAVITZ: I think that's fair. Let's
18 ask him a yes or no question, whether he knows why or
19 how it came about that Mr. Branscum was appointed to
20 the highway commission. I think if the answer is no,
21 we can move on. If the answer is yes then we may
22 have to revisit it at some later time. Is that

94

1 agreeable?

2 MR. BRENNER: That's agreeable. But before
3 we move on to the question, I would like to state
4 that the resolution says "all matters that have any
5 tendency to reveal the full facts about," and one of
6 the things is "the lending activities of Perry County
7 Bank, Perryville, Arkansas in connection with the
8 1990 Arkansas gubernatorial campaign." I don't think
9 you can argue in good conscience that the indictment
10 issued by the grand jury which specifically mentions
11 the fact that it may have been a quid pro quo doesn't
12 have a tendency to reveal the full facts about that
13 issue.

14 MR. KRAVITZ: Mark, let's not start making
15 allegations about people making arguments in good
16 conscience or good faith or bad faith. The fact of
17 the matter is, the Senate operates under a resolution
18 that it passed. The Senate does not operate -- and
19 everyone will agree that the Senate's charter, the
20 Special Committee's charter, is far less broad than
21 the charter that was given to the Office of
22 Independent Counsel.

1 MR. BRENNER: I agree with you
2 wholeheartedly.

3 MR. KRAVITZ: Let me finish what I'm
4 saying. So to make the argument that simply because
5 something has been mentioned in an indictment that
6 was issued by a grand jury operating under the
7 direction of the Independent Counsel doesn't impress
8 me or persuade me that that means that the Senate
9 Special Committee is authorized to investigate it.

10 And you know it's interesting that you
11 mention the actual section of this resolution which
12 refers specifically to the lending activities of
13 Perry County Bank, Perryville, Arkansas in connection
14 with the 1990 Arkansas gubernatorial election. Now,
15 you know, the indictment that you refer to doesn't
16 make any mention of lending activities of the Perry
17 County Bank, so I mean even under your approach,
18 which I believe is flawed, I don't think that gets
19 you within the resolution.

20 But we don't need to argue this and waste
21 Mr. Smith's time and waste pages of the record here.
22 Why don't we just ask him the general question that

96

1 we agreed that you would ask and see what his answer
2 is.

3 Mr. Smith, you understand that the answer
4 that we would like you to give is either yes or no to
5 the question that Mr. Brenner is about to ask?

6 MR. BARTOLOMUCCI: If he can answer it in a
7 yes or no, we want an accurate answer obviously.

8 BY MR. BRENNER:

9 Q Mr. Smith.

10 A What is the question?

11 Q The question is whether or not you know any
12 facts which would tend to reveal how Mr. Branscum
13 came to be appointed to the highway commission.

14 A He's been a long-time Democrat and he was
15 chairman of the young Democrats years ago and I
16 assume that he supported Bill Clinton for all those
17 years.

18 MR. BARTOLOMUCCI: That kind of sounds like
19 a yes.

20 MR. KRAVITZ: It sounds like he doesn't
21 know, but he's making an assumption.

22 MR. BARTOLOMUCCI: Can we ask the question,

1 do you have any knowledge about the appointment?

2 MR. PORTNOY: Do you have any firsthand
3 knowledge?

4 MR. KRAVITZ: About how he came to be
5 appointed or are you just making an assumption based
6 on your knowledge of his background?

7 BY MR. BRENNER:

8 Q Based on your answer, we're going to ask
9 you a couple of quick follow-ups. Do you have any
10 knowledge that was imparted to you as to why
11 Mr. Branscum was appointed, or is it just that you
12 know his long history of being a member?

13 A I have no knowledge of that fact except
14 what I've told you.

15 Q Thank you. Do you know William Lyon, Bill
16 Lyon?

17 A No, I don't know him.

18 Q I'm sorry?

19 A No, I don't know.

20 Q Are you familiar with his appointment to
21 the savings and loan board? Were you involved in the
22 savings and loan board appointments? I'm sorry.

1 A When was that?

2 MR. PORTNOY: In fact, it's not at all
3 clear that Mr. Lyon actually served on the savings
4 and loan board. I believe he served on a different
5 board and has contended that he was asked to consider
6 service on the savings and loan board, so the
7 appropriate inquiry to the extent there is one would
8 involve either his appointment to the bank board or
9 his testimony concerning his appointment to the S&L
10 board.

11 BY MR. BRENNER:

12 Q I apologize. Are you familiar with
13 Mr. Lyon's appointment to the Arkansas bank board?

14 A When was that?

15 Q It was in the early 1980s, sometime between
16 1982 and 1985.

17 A I don't recall it offhand, but I just --
18 from '83 to '85, I probably -- those positions on the
19 bank board were recommended by the Bankers
20 Association. They sent three names for each district
21 around the state.

22 Q Did Mr. McDougal ever make any

- 1 recommendations?
- 2 A Not that I know of.
- 3 Q Not that you know of?
- 4 A No.
- 5 Q To the savings and loan board?
- 6 A Not that I know of.
- 7 Q And not to the banking board?
- 8 A No.
- 9 Q How about to the securities commission?
- 10 A I don't have any -- not to me.
- 11 Q Not to you but to anyone in the governor's
- 12 office that you know about?
- 13 A Not that I know of.
- 14 Q Did you ever meet with Dan Lasater, George
- 15 Collins or David Locke to discuss appointments to the
- 16 Arkansas Development Housing Authority?
- 17 A No.
- 18 Q Did you ever hear of Mr. Lasater,
- 19 Mr. Collins or Mr. Locke meeting with anyone from the
- 20 governor's office related to those appointments?
- 21 A Not that I know of.
- 22 Q I guess to be completely clear on the

100

- 1 question with Mr. McDougal, did you ever see any
- 2 correspondence between Mr. McDougal and the governor
- 3 or anyone in the governor's office related to
- 4 appointments to the savings and loan board, the
- 5 securities commission or the bank board?
- 6 A Not that I recall.
- 7 Q Do you know Kathy Gibson?
- 8 A Yes.
- 9 Q Who is Kathy Gibson?
- 10 A She worked in the governor's office when I
- 11 was there.
- 12 Q Did you work with Kathy Gibson on
- 13 appointments?
- 14 A Yes.
- 15 Q Did she ever mention to you that she met or
- 16 discussed on the phone with Mr. McDougal or
- 17 Mrs. McDougal any appointments?
- 18 A Not that I recall.
- 19 Q Not that you recall?
- 20 A No.
- 21 Q Do you know Linda Trent?
- 22 A No.

1 Q There's a letter by Mr. Collins dated April
2 11, and there's a phone message to the governor with
3 your initials, meaning it was sent, as I understand
4 the process, to you from the governor after he saw
5 it, saying that -- by Mr. Lasater that
6 Messrs. Lasater and Collins would like Ms. Trent to
7 be considered for an appointment to the Arkansas
8 Development Housing Agency. Do you know anything
9 about that?

10 A I do not. I'm not saying he didn't say it
11 to me but I don't recall it.

12 MR. PORTNOY: Could you identify that
13 document for the record, Mark? Is there a date and
14 Bates number?

15 BY MR. BRENNER:

16 Q In that same letter that I'm referring to,
17 there's a reference to Derby Day party. Did you ever
18 attend a Derby Day party of Mr. Lasater's?

19 A Yes.

20 Q When was that?

21 A I don't know what year it was.

22 Q Could you tell me roughly?

1 A It was back in the '80s, but I don't know
2 what year it was.

3 Q Would it have been somewhere between 1982
4 and 1985?

5 A Could have been.

6 Q The letter I'm referring to is DKS
7 027451.

8 The letter also says "I'm looking forward
9 to welcoming you and Hillary to our Derby Day party
10 and trust you will find it convenient to attend."
11 This is on Collins, Locke & Lasater stationery. Do
12 you know if then-Governor or Mrs. Clinton ever
13 attended a Derby Day party of Mr. Lasater's?

14 A I don't recall. They could have been
15 there. I remember going -- what was the date of that
16 letter?

17 Q The date was March 31, 1983.

18 A They might have.

19 Q They may have?

20 A Yes. I said they might have. I remember I
21 went to one, and I don't remember whether they were
22 there or not.

1 Q I'm going to run through a few appointments
2 that were made. If appears that George Wright was
3 recommended to be chairman of AHDA in December of
4 1983 via a letter by Dan Lasater. Were you involved
5 in that?

6 A George who?

7 Q George Wright, Jr.

8 A I don't recall that name.

9 Q Do you remember Mr. Lasater making any
10 requests on any appointments?

11 A Well, he could have, but I don't --
12 specifically I don't remember them.

13 Q Well, if he were going to make requests on
14 appointments to boards that you oversaw the
15 appointments for and he wanted to make those
16 requests, who would he make that request to?

17 A He might have made it to the governor or he
18 might have made it to me, I don't know.

19 Q So you and the governor were the two people
20 who handled most of those requests?

21 A Right.

22 Q Did the governor as you understand it see

1 most of the letters and phone messages that requested
2 various people to various boards?

3 A I think so.

4 Q Do you know what the Public School
5 Financing Board is?

6 A Who?

7 Q The Public School Financing Board.

8 A Do I know who they are?

9 Q Do you know what that entity is?

10 A I know about it. I know they have it for
11 schools.

12 Q That's a bond underwriting board?

13 A I don't know. I don't know.

14 Q Are you aware of Michael Drake, who was
15 then-vice president at Lasater & Company, being
16 recommended to that board by Dan Lasater?

17 A No, I don't remember.

18 Q Did you ever receive any cash, checks or
19 anything of monetary value from anyone with regard to
20 state commissions or as gratuities?

21 A No.

22 Q Do you know of anyone in the governor's

- 1 office doing so?
- 2 A Absolutely not.
- 3 Q Did you ever take cash from Mr. Lasater or
- 4 anyone associated with Mr. Lasater?
- 5 A No.
- 6 Q Mr. McDougal?
- 7 A No.
- 8 Q Mr. Branscum or Mr. Hill?
- 9 A No.
- 10 Q Anything of value other than cash?
- 11 A No.
- 12 Q Did you ever hear of anyone in the
- 13 governor's office receiving or taking cash from
- 14 anyone with regard to bond underwritings?
- 15 A No.
- 16 Q With regard to legislation?
- 17 A No.
- 18 Q Did you ever receive or hear of anyone from
- 19 the governor's office or the governor's security
- 20 detail receiving any envelopes to be delivered to the
- 21 governor or Betsey Wright?
- 22 A No.

- 1 Q Did you ever receive cash at any time from
- 2 a bank, business or individual with regard to any of
- 3 the campaigns?
- 4 A No.
- 5 Q Did you ever direct anyone to receive such
- 6 cash?
- 7 A No.
- 8 Q Did you ever hear of anyone from any
- 9 campaign receiving such cash?
- 10 A No.
- 11 Q Do you know Bruce Lindsey?
- 12 A Yes.
- 13 Q When did you meet Mr. Lindsey?
- 14 A Oh, I've known him -- I've known him for
- 15 eight or 10 years, something like that.
- 16 Q Are you familiar with the preferred stock
- 17 offering of Madison Guaranty?
- 18 A No.
- 19 MR. PORTNOY: The proposed preferred stock
- 20 offering?
- 21 BY MR. BRENNER:
- 22 Q The proposed preferred stock offering.

1 A No.

2 Q On February 4, 1985 there's a memo on the
3 governor's stationery re: the Arkansas Savings and
4 Loan Board and on the bottom left-hand side it has
5 Jim McDougal's phone number and name, and it appears
6 that John Latham was the name that was recommended by
7 McDougal because it's written below the rest of the
8 text of that document.

9 You're not aware of anyone talking to
10 Mr. McDougal about any appointments?

11 A No.

12 Q Did Mr. McDougal ever stop by the
13 governor's office?

14 A I've seen him there a time or two.

15 Q And this is between 1982 and 1985 when you
16 were there; is that correct?

17 A Right.

18 Q Did you see him there once or more than
19 once?

20 A I know I've seen him there a couple of
21 times, yes.

22 Q Would he just stop by just for a visit?

1 A That's all he ever did with me.

2 MR. PORTNOY: Could we clarify again,
3 please, Mark, whether by "the governor's office" you
4 mean specifically Bill Clinton's office or the
5 broader office of the governor?

6 BY MR. BRENNER:

7 Q When you mentioned -- when I asked you the
8 governor's office, when I asked if Mr. McDougal
9 stopped by the governor's office, did he stop by the
10 governor's office, meaning Bill Clinton's office, or
11 did he stop by the office suite?

12 A I saw him in the office suite.

13 Q Did you ever see Mr. Clinton --
14 then-Governor Clinton with him?

15 A Not that I recall, but if the governor was
16 there he might have seen him. I just don't recall.

17 Q Did you ever sit in on any meetings with
18 the governor and Mr. McDougal?

19 A Not that I recall.

20 Q Did you ever discuss with Mrs. Clinton the
21 relationship between the McDougals and the Clintons?

22 A No.

1 Q Did you ever discuss with the governor the
2 relationship between the Clintons and the McDougals?

3 A No.

4 Q Did you ever discuss with Betsey Wright the
5 relationship between the Clintons and the McDougals?

6 Mr. Smith? We didn't get an answer to the
7 last question.

8 A What was the last question?

9 Q Did you ever discuss with Betsey Wright the
10 relationship between the Clintons and the McDougals?

11 A Not that I recall.

12 Q I asked earlier if you were involved with
13 any appointments to the securities commission. And
14 have you ever met Beverly Bassett Schaffer?

15 A Yes.

16 Q When did you meet Ms. Schaffer?

17 A While I was in the governor's office.

18 Q And do you remember when that was?

19 A I don't know what date it was. I imagine
20 about the time she got appointed.

21 Q Were you involved in that appointment?

22 A No.

110

1 Q I'm looking at a document marked DKS
2 026297, it's a letter from the Bassett law firm,
3 Woody Bassett in particular. You know Woody Bassett,
4 don't you?

5 A Yes.

6 Q When did you meet Mr. Bassett?

7 A During some of the campaigns, back in the
8 '80s, early '80s.

9 Q At this point there's on the memo in
10 handwriting, in larger letters is Gibson and
11 underneath there's a BW/MS/CG. And it says "she'd be
12 good, but may need to do something else, line, B."
13 That's how the governor usually signed handwritten
14 notes; is that correct?

15 A Yes.

16 Q And the MS in this is you, Maurice Smith?

17 A Right.

18 Q Why would the governor be sending you this
19 letter?

20 A What was the letter again?

21 Q It's a letter from Woody Bassett
22 recommending Beverly Bassett to the post of -- to

1 securities commissioner.

2 A I guess he wanted me to see it.

3 Q But you weren't involved in the
4 appointment?

5 A Once he signed it, I had to be involved in
6 it. I had to get them ready and had to get Kathy
7 Gibson to get stuff sent to these people.

8 Q Well, so you were involved in the
9 appointment?

10 A Well, I wasn't involved in the decision of
11 the appointment.

12 Q Who would have been involved in the
13 decision?

14 A The governor would have.

15 Q Would Betsey Wright have been involved?

16 A I doubt that.

17 Q And why do you doubt that?

18 A I mean he made -- I don't know of anybody
19 who made those kinds of appointments beside himself.
20 He discussed it and told us what he was going to do.

21 Q By nature of discussion, did he ask you
22 your opinion from time to time?

1 A Sure, but he knew this woman Bassett better
2 than I did.

3 Q So when I asked you the question about
4 whether or not you had a role in the appointment,
5 that includes as far as I'm concerned -- and correct
6 me if I'm wrong -- whether or not the governor asked
7 you your opinion or whether or not you gave your
8 opinion.

9 A On a lot of them I did, yeah. I didn't
10 know her.

11 Q You didn't know her?

12 A He knew her. He knew her up in
13 Fayetteville when he was up there teaching school.

14 Q Did the governor ever say to you or Betsey
15 Wright ever say to you that they thought Jim McDougal
16 wanted this?

17 A No.

18 Q Are you familiar with the "brewery bill"
19 which was a bill that would allow breweries in
20 Arkansas to open certain tasting rooms?

21 A No, I'm not.

22 Q Are you familiar with Campobello Island?

1 A I know what it is, yeah. I know McDougal
2 bought it.

3 Q Did you ever attend any parties or any
4 dinners or any functions related to Campobello
5 Island?

6 A No.

7 Q Do you know if the governor ever attended
8 any such meetings?

9 A Not that I know of.

10 Q I have a couple of questions and then I'm
11 going to be done.

12 I wanted to get back to Bruce Lindsey for a
13 minute. When did you say you met Bruce Lindsey?

14 A Back in the '80s. I don't know what year
15 it was.

16 Q Were he and the governor friends?

17 A Yes.

18 Q How often did you see Mr. Lindsey in and
19 around the governor's offices, including the suite?

20 A Very little when I was there.

21 Q Did you ever work on any fund-raising
22 activities with Mr. Lindsey?

1 A No.

2 Q Did he ever ask you to contribute to the
3 1990 campaign?

4 MR. KRAVITZ: Objection. Mr. Smith, please
5 don't answer that question. That's outside the scope
6 of our resolution. I'm shocked.

7 BY MR. BRENNER:

8 Q You stated earlier that you attended a
9 Derby Day party and that you believe the governor may
10 have as well.

11 A I said I was there. He could have been. I
12 don't know that. I didn't say I believed he did.

13 Q I'm looking at a memo DKS 019644, George
14 Locke/Collins, Locke & Lasater. Bill Rempel, do you
15 know Bill Rempel?

16 A No.

17 Q "Re: drugs at annual Derby Day party, also
18 discussed relationship with Lasater and the 20
19 million bond issue with state police. Rempel had the
20 FBI" -- "had the" -- I think it says "'86 FBI Locke
21 file and was asked a lot of questions regarding
22 Locke's statements." Are you familiar with any of

1 those allegations?

2 A I didn't understand what you were reading.

3 Q It's a handwritten note related to some
4 allegations about drugs at an annual Derby Day party
5 and relationship with Lasater on a \$20 million bond
6 issue.

7 A No, I don't know anything about that.

8 Q You never saw drugs at any Derby Day
9 parties?

10 A I never saw -- there was just the one I
11 went to and I was just there a very short time, and I
12 didn't see any drugs. There was booze.

13 Q I'm looking at another note. It's DKSN
14 017322. It says "L.D. Brown used to be in governor's
15 security, concerned re: what he would say."

16 Why would someone be concerned about what
17 Mr. Brown might say?

18 A What memo is that?

19 Q I'm sorry. It's a handwritten note.

20 A Who wrote it?

21 Q It's not entirely clear from this one page
22 of documents. It appears that it may have been a

1 campaign note.

2 MR. KRAVITZ: What campaign?

3 BY MR. BRENNER:

4 Q The 1992 gubernatorial -- presidential
5 campaign.

6 A I don't know anything about that.

7 Q You wouldn't know why L.D. Brown would be a
8 problem?

9 MR. KRAVITZ: Are you just going to ask him
10 to speculate?

11 MR. BARTOLOMUCCI: That didn't call for
12 speculation.

13 MR. BRENNER: I can ask if he has any
14 knowledge why L.D. Brown would be a problem.

15 MR. KRAVITZ: That's not what you're asking
16 him. You're asking him why someone whom you can't
17 identify might have written that note that you just
18 read.

19 MR. BRENNER: I don't think so. I think
20 the question I asked was whether or not --

21 BY MR. BRENNER:

22 Q Do you know why L.D. Brown, who used to be

1 in the governor's security, would cause concern for
2 someone re: what Mr. Brown might say? Why would
3 Mr. Brown be a problem?

4 A Do you want me to answer that?

5 Q Please.

6 A As far as I know, he had trouble, he ran
7 the state police union there for a while and he could
8 get some -- so he got mad at the governor. That's
9 the only thing I know about why he'd be a problem. I
10 don't know what problem he would be.

11 Q So you don't know of any of Mr. Brown's
12 allegations --

13 A The only thing I know is he got mad at the
14 governor because the governor wouldn't help him pass
15 some legislation he wanted passed.

16 MR. BRENNER: I'm just going to take one
17 minute, if you could wait a minute. Do you need a
18 break.

19 THE WITNESS: Yes, I sure do.

20 (Recess.)

21 BY MR. BRENNER:

22 Q Just a couple of quick last questions. Did

1 you ever go to Angel Fire ski resort with
2 Mr. Lasater?

3 A I can't hear you.

4 Q Did you ever go to the Angel Fire ski
5 resort with Mr. Lasater?

6 A No.

7 Q With Patsy Thomasson?

8 A No.

9 Q When you were here in Washington, did you
10 talk to Patsy Thomasson?

11 A Yes.

12 Q Did you talk to her about anything related
13 to Dan Lasater or ADFA or anything of that nature?

14 A No.

15 Q Your conversations with her were general
16 conversation not related to say the issues we've
17 talked about today?

18 A No. General conversation.

19 Q Not about upcoming -- her potential
20 upcoming deposition?

21 A I knew that she had to give one, but we
22 didn't get into it. I didn't get into with it her.

1 Q You didn't talk to her about some of the
2 questions that may be raised?

3 A No.

4 MR. BRENNER: That's all I have.

5 EXAMINATION

6 BY MR. PORTNOY:

7 Q Mr. Smith, I think we'll be out of here
8 shortly. This is Jim Portnoy, sir.

9 One question that goes back to the very
10 beginning of the deposition, and I seem to have been
11 confused, is could you try to approximate for me
12 precisely what dates you served in the governor's
13 office, when you began and ended your service in his
14 office?

15 A I began in January of '93.

16 Q Of '83, sir?

17 A Of '83, that's right, excuse me. Of '83,
18 and ended in -- I don't know what date it was but
19 along in the spring of '85. I don't know what the
20 exact date was.

21 Q Okay, sir. And that was the only time you
22 served in the governor's office; is that correct?

120

1 A Yeah. Well, I told you about being there
2 when he was first elected.

3 Q Yes, sir. I meant you never served in the
4 governor's office after the spring of 1985?

5 A Right, right.

6 Q Mr. Smith, you testified earlier that you
7 may have sat in on a meeting between Governor Clinton
8 and Mr. Lasater but that you weren't sure. Are you
9 sure that a meeting between Mr. Clinton and
10 Mr. Lasater occurred?

11 A Well, like I say, I've seen him there and
12 I'm sure that he had business in the governor's
13 office.

14 Q Do you specifically recall, sir, whether
15 you attended the meeting or you just surmised that
16 you might have?

17 A I couldn't be specific about it. I just
18 surmised that I might have been.

19 Q Sir, the allegation has been raised that
20 Mr. Lasater had some kind of improper influence over
21 Governor Clinton. Are you aware of any information
22 that would support that allegation?

1 A No, I don't know what kind of improper
2 influence it could have been.

3 Q Well, for example, sir, it's been suggested
4 that Governor Clinton tried to steer state bond
5 underwriting business to Mr. Lasater in return for
6 Mr. Lasater's campaign support.

7 A I don't think that's true. The bond
8 business was all around over town to the different
9 bond houses as I recall.

10 Q It's also been suggested, sir, that
11 Governor Clinton somehow intervened or helped direct
12 the police radio bond underwriting to an underwriting
13 syndicate involving Mr. Lasater's company. Do you
14 have any reason to believe that Governor Clinton was
15 involved in that decision at all, sir?

16 A No, I don't have any reason to believe
17 that.

18 Q Mr. Smith, do you know whether companies
19 that wanted to do business with the state tried to
20 come in and make pitches to the governor's staff?

21 A Oh, yeah, sure, there's always somebody
22 coming in wanting to do something.

1 Q So that was common, sir?

2 A Yeah.

3 Q And it wouldn't have been unusual if
4 Mr. Lasater or a representative of his firm made that
5 kind of a pitch?

6 A No.

7 Q Would it have been par for the course?

8 A Par for the course. It would have been
9 rare if he would have been the only one.

10 Q To your knowledge, did Governor Clinton or
11 anyone on the governor's staff ever direct business
12 to any underwriting firm or other proposed state
13 vendor for anything other than proper reasons?

14 A No.

15 Q To your knowledge, sir, did Governor
16 Clinton or anyone on his staff ever try to direct
17 state business to campaign contributors?

18 A Not that I know of.

19 Q I beg your pardon, sir?

20 A Not that I know of, no.

21 Q Sir, the specific allegation has been made
22 that Governor Clinton directed the state to lease

1 office space at Madison Guaranty in recompense for
2 the fund-raiser that Mr. McDougal sponsored in April
3 of 1985. Do you have any reason to believe that
4 those allegations are true, sir?

5 A I do not.

6 Q Do you have any reason to believe that
7 Governor Clinton had any role whatsoever in
8 determining that the state would lease space from
9 Madison Guaranty?

10 A I do not.

11 Q So as far as you know, sir, that decision
12 was made in the usual course of business?

13 A Right.

14 Q And without any involvement from Governor
15 Clinton or his staff?

16 A As far as I know.

17 Q Mr. Smith, Mr. Brenner pointed out to you a
18 number of letters or notes that indicate that
19 prominent citizens made recommendations for boards
20 and commissions. Was that common, sir?

21 A Oh, we got millions of them.

22 Q Was it common, sir, for the recommendations

1 to come from individuals or business entities that
2 had business before the boards or commissions?

3 A A lot of them, yeah.

4 Q So there was nothing unusual, for example,
5 about Mr. McDougal submitting a recommendation for
6 somebody for the S&L board?

7 A No, if he did.

8 Q A construction company, for example, might
9 suggest someone for the highway commission?

10 A Yes.

11 Q To your knowledge, did Governor Clinton
12 ever make board appointments or commission
13 appointments for anything other than proper reasons,
14 sir?

15 A No.

16 MR. BARTOLOMUCCI: Can you define what you
17 mean by "proper reasons" in that context?

18 BY MR. PORTNOY:

19 Q Certainly. Let me ask you specifically,
20 sir. To your knowledge, did Governor Clinton ever
21 promise to appoint someone to a board or commission
22 in return for campaign contributions?

1 A No.

2 Q Let me ask you a follow-up to that, sir.

3 To your knowledge, did Governor Clinton ever appoint
4 someone to a board or commission in return for a
5 campaign contribution?

6 A No.

7 MR. PORTNOY: Thank you, Mr. Smith. I have
8 no more questions.

9 MR. BRENNER: I have just a few more
10 questions.

11 MR. BARTOLOMUCCI: Mark, can I go first?

12 MR. BRENNER: Yes, you may.

13 EXAMINATION

14 BY MR. BARTOLOMUCCI:

15 Q Mr. Smith, this is Chris Bartolomucci
16 again. We're just going to ask a few follow-up
17 questions. I think we're in the homestretch here.

18 First of all, other than your family, did
19 you inform anyone about the fact that you were going
20 to have your deposition taken today?

21 A Nobody but my wife and son-in-law.

22 Q Do you know a man named Dene Landrum?

126

1 A No.

2 Q You do not?

3 A No.

4 Q I believe you told me earlier that you know
5 a Burt Dickey?

6 A Yes.

7 Q Can you tell me how you know him?

8 A Well, his dad owned an implement business
9 over here in Earl, Arkansas about 20 miles from here,
10 and I've seen him grow up. He's about the same age
11 as some of my kids.

12 Q Have you had any involvement with
13 Mr. Dickey related to campaign contributions?

14 A No. Perhaps back in the '82 campaign, I
15 think he had a little fund-raiser in Earl.

16 Q Just to make sure I heard you straight, you
17 had Mr. Dickey held a fund-raiser in connection with
18 the '82 campaign?

19 A Yes, he and his mother did in '82, I
20 believe.

21 Q Okay. Did you have some involvement with
22 that or are you just aware of it?

- 1 A I'm just aware of it.
- 2 Q Okay. Do you know Bill Hurt?
- 3 A Yes.
- 4 Q Who is Bill Hurt?
- 5 A He's got a manufacturing company up in
- 6 Jonesboro, Arkansas.
- 7 Q And do you know whether -- let me start
- 8 over.
- 9 Do you have any information as to whether
- 10 Mr. Hurt received a state commission in exchange for
- 11 campaign contributions?
- 12 A No.
- 13 Q Do you know a Ralph Weiser or Weiser,
- 14 spelled W-e-i-s-e-r?
- 15 A No.
- 16 Q You don't know whether Weiser or Weiser?
- 17 A No.
- 18 Q Do you know a Ron Owens?
- 19 A Yeah, he's dead, but I knew him.
- 20 Q How did you know Mr. Owens?
- 21 A Well, he helped Clinton's campaigns.
- 22 Q Do you have any knowledge as to whether

- 1 Mr. Owens donated campaign money in the names of
- 2 others?
- 3 MR. KRAVITZ: In what year?
- 4 MR. BARTOLOMUCCI: I want to ask more
- 5 generally.
- 6 MR. KRAVITZ: You're not allowed to ask
- 7 that question more generally. That question is
- 8 outside the scope of our resolution.
- 9 MR. BARTOLOMUCCI: Mr. Smith doesn't seem
- 10 to have a precise grasp of particular years. I think
- 11 it's going to be impossible to pin him down.
- 12 MR. KRAVITZ: Wait a minute. Unless you
- 13 can link it up somehow to something that's within our
- 14 resolution, I mean there are two gubernatorial
- 15 campaigns that have hooks in our resolution. One is
- 16 the 1990 relating to the lending practices of Perry
- 17 County Bank and one is the 1984 campaign strictly as
- 18 it relates to the 1985 fund-raiser that was held at
- 19 Madison Guaranty Savings & Loan.
- 20 Other than that, questions about campaign
- 21 contributions, whether they were legal or illegal,
- 22 are outside the scope.

1 MR. BARTOLOMUCCI: I'll just tie it to
2 those two campaigns.

3 BY MR. BARTOLOMUCCI:

4 Q Mr. Smith, with respect to the 1984 or 1990
5 gubernatorial campaigns, are you aware of if
6 Mr. Owens made any donations which are recorded in
7 the names of other people?

8 MR. KRAVITZ: Mr. Smith, please don't
9 answer that question. I object to that question.
10 It's way outside the scope. If you want to ask
11 whether Mr. -- what's the name of the person you're
12 talking about?

13 MR. BARTOLOMUCCI: Ron Owens.

14 MR. KRAVITZ: If you want to ask him
15 whether Mr. Ron Owens made contributions at the
16 April 4, 1985 fund-raiser at Madison, you can ask
17 that question, and if you want to ask whether
18 Mr. Owens made some contributions that was related in
19 some way to the lending practices of the Perry County
20 Bank in relation to the 1990 gubernatorial campaign,
21 you may ask that question. Otherwise, I'm going to
22 instruct Mr. Smith not to answer.

1 MR. BARTOLOMUCCI: I really have to object
2 to that approach. I mean Jim just asked whether
3 Mr. Smith knows anything about anyone receiving
4 commissions for any campaign contributions. That's
5 on the record.

6 MR. KRAVITZ: And as a result of those
7 questions, I have not objected to your questions of
8 Mr. Smith to the effect of whether he knows whether
9 Mr. X or Mr. Y received an appointment to a board or
10 commission in return for campaign contributions. I
11 otherwise would have objected to those questions, but
12 I noted that Mr. Portnoy's questions I thought fairly
13 opened the door to those questions and I didn't
14 object.

15 You are now asking questions that are not
16 in any way responsive to any door that Mr. Portnoy's
17 questions opened, and I think you know that.

18 BY MR. BARTOLOMUCCI:

19 Q Let me try this. Mr. Smith, do you know
20 whether in connection with the '84 campaign or
21 subsequent to the campaign at the '85 fund-raiser,
22 Mr. Owens made a donation in the name of someone

1 else?

2 MR. KRAVITZ: Please don't answer that
3 question. If you want to ask the second half of that
4 question, he can answer it. Other than that, he
5 can't answer that question.

6 MR. BARTOLOMUCCI: We're going off the
7 record for a second.

8 (Discussion off the record.)

9 BY MR. BARTOLOMUCCI:

10 Q Back on the record. Mr. Smith, I don't
11 think we have much more. Let me in the interest of
12 moving this along, I'll put my question just to you
13 in this limited fashion, which is if you know whether
14 at the 1985 Madison fund-raiser, Mr. Ron Owens
15 contributed money that was recorded or reflected as
16 having been donated in someone else's name.

17 A Absolutely not.

18 Q Do you know a man named Jim Barber?

19 A Yes.

20 Q Who is Mr. Barber?

21 A He lives in Jonesboro. He's been involved
22 in some of the campaigns. I think he's in the

1 manufacturing business up there.

2 Q Let me ask you the same question about him
3 that I asked you about Mr. Owens, which is whether at
4 the '85 Madison fund-raiser, Mr. Barber donated money
5 that was recorded or reflected as having been donated
6 in somebody else's name.

7 A I do not.

8 Q Have you ever had any meetings with
9 Governor Clinton at Quapaw Towers?

10 A I have an apartment there he's come back
11 to.

12 Q But these were just visits, not
13 business-related meetings?

14 A No.

15 Q Do you know what years you lived there?

16 A I've had an apartment there since 1973. I
17 still have got it.

18 Q Do you have a rough idea as to how many
19 times you would have seen him there?

20 A Oh, maybe three or four during the 10 years
21 there.

22 MR. BARTOLOMUCCI: I think that's all I

1 have.

2 EXAMINATION

3 BY MR. BRENNER:

4 Q I have a few related to some other areas
5 that Mr. Portnoy reached into. You stated that you
6 weren't aware of any improper deals where state
7 business was directed to Mr. Lasater or to
8 Mr. McDougal after their fund-raising; is that
9 correct?

10 A That's correct.

11 Q But the fact is that a good deal of state
12 business was directed to both Mr. Lasater and
13 Mr. McDougal after, subsequent to their fund-raising
14 activities; is that correct?

15 A I don't know.

16 Q Well, you know Mr. Lasater became more and
17 more involved after 1982 in bond underwriting
18 contracts for the state of Arkansas, don't you?

19 A Yes, I know that. As well as some other
20 bond houses.

21 Q But Mr. Lasater happened to be among those
22 bond houses that received a good deal more business

134

1 after 1982?

2 A Mr. Lasater received some bond business. I
3 don't know how much more. He was among those that
4 received business from the state. I don't know that
5 he received much more.

6 Q Well, he wasn't actively involved before
7 1982, was he?

8 A Well, we weren't either.

9 Q Exactly.

10 A Yeah, right.

11 Q You stated that the final say on the
12 leasing of space by AHDA was Paul Mallard's decision?

13 A He was the building services director, so
14 he was the one that was doing it, as far as I know.

15 Q And he was appointed by Governor Clinton;
16 is that correct?

17 A That's correct.

18 Q So Governor Clinton certainly had some
19 degree of influence with Mr. Mallard?

20 A I would imagine he did.

21 Q You mentioned that many people would make
22 calls or write letters for recommendations. Did the

1 governor actively reach out and consult a large
2 number of people on recommendations?

3 A Well, I would like to say that -- like I
4 say, he got all kinds of recommendations.

5 Q But in other words I'm talking about the
6 governor reaching out and saying call Jim McDougal
7 and see how he feels about this.

8 A Not that I know of.

9 Q So the governor didn't reach out to any
10 great degree to people for recommendations. Plenty
11 of recommendations were coming into the governor
12 without him having to reach out?

13 A Right.

14 Q You stated that promises were never made to
15 appoint people to various state commissions after
16 various lending or fund-raising activities?

17 A Not that I know of.

18 MR. KRAVITZ: And just so the record is
19 clear, because I think you misstated this once
20 before. The testimony was that no appointments were
21 promised in return for campaign contributions.

22 BY MR. BRENNER:

1 Q So you stated that no appointments were
2 promised in return for contributions; is that
3 correct?

4 A That's correct.

5 Q But as you understand it, including
6 Mr. Branscum and Mr. Hill, who were appointed to
7 commissions and including many of the people
8 recommended by Mr. McDougal and many of the people
9 recommended by Mr. Lasater, the fact that someone did
10 those fund-raising activities, even though it may not
11 have been promised, there may have been an implicit
12 understanding, it's possible?

13 MR. PORTNOY: I believe that's the opposite
14 of Mr. Smith's testimony. Mr. Smith testified that
15 nobody received an appointment in return for
16 contributions, and your question presumes that they
17 did.

18 MR. BRENNER: No, no, no. Neal said nobody
19 was promised.

20 MR. PORTNOY: I asked the specific question
21 whether anybody received an appointment in return for
22 a contribution, and Mr. Smith testified that nobody

1 received an appointment in return for a
2 contribution. And I just want to be clear that what
3 your question is suggesting is that in fact someone
4 did receive an appointment in return for a
5 contribution, and in light of the fact we're doing
6 this over the telephone, I don't want Mr. Smith to be
7 confused about the implication of your question.

8 MR. BARTOLOMUCCI: I think you better try
9 the question again.

10 MR. KRAVITZ: You did ask both those
11 questions.

12 BY MR. BRENNER:

13 Q The reality of the situation, it seems,
14 based on the facts we have, is that whether or not
15 there was a promise or whether or not anyone
16 received, depending on which way you use the
17 language, commissions for campaign contributions, the
18 reality is that those who contributed during times of
19 need, such as Mr. Branscum and Mr. Hill, did receive
20 appointments subsequent to their campaign
21 contributions; is that correct?

22 A Well, you know, I would assume that he

1 didn't appoint anybody that wasn't worth appointing.

2 MR. KRAVITZ: I don't think it was a
3 question.

4 MR. PORTNOY: I think Mr. Brenner was
5 testifying. And if you want to ask the witness
6 whether he knows of any connection between campaign
7 contributions and appointments in the context we've
8 discussed, that's fine. Your testimony is not what
9 we're here for.

10 MR. KRAVITZ: You're also asking him about
11 a time period that he wasn't in the governor's
12 office. You're asking about Branscum and Hill. He
13 was out of the governor's office six years before
14 Branscum got appointed --

15 MR. BRENNER: He had stated on the record
16 previously that he knew of Mr. Branscum and Mr. Hill,
17 that he knew of Mr. Branscum's appointments to the
18 highway commission, so he may have some knowledge in
19 this area.

20 MR. KRAVITZ: And is it your position that
21 that question, quote, question that you just asked
22 was likely to elicit any information that this

1 witness might have about that point?
2 MR. BARTOLOMUCCI: This is pointless.
3 Let's continue --
4 MR. KRAVITZ: I agree this is pointless.
5 MR. BRENNER: Could you reread the
6 question, please?
7 (The reporter read the record as requested.)
8 BY MR. BRENNER:
9 Q Mr. Smith; is that correct?
10 A Why don't you ask that question. I didn't
11 understand everything he said.
12 Q Do you want me to re-ask the question?
13 A Why don't you re-ask it and do it shorter
14 if you can.
15 Q The short version is I'm asking you whether
16 or not you have an understanding that those who
17 contributed received commissions to various state
18 boards, even though you've stated earlier that there
19 was no promise of a commission appointment for a
20 contribution. And I'm asking you if you understand
21 that to be correct.
22 MR. PORTNOY: Mr. Smith, please don't

1 respond. I would like the record to be clear that
2 the question suggests that everyone who contributed
3 to the Clinton campaign received an appointment, and
4 I think there's also an implicit implication that
5 everyone who received an appointment contributed. I
6 think a fairer question, and one that Mr. Smith
7 presumably could answer based on his knowledge, is
8 that some people who made contributions later
9 received appointments. Whether Mr. Smith is aware of
10 any connection between those two facts is an entirely
11 different matter.
12 BY MR. BRENNER:
13 Q Are you aware of any connection between
14 appointments and fund-raising or campaign
15 contributions or loans to campaigns?
16 A No.
17 Q Even if it's not a direct relation or based
18 on a promise, can you see a relationship between
19 those two things?
20 A Like I said, I know that he's appointed
21 people that have made contributions.
22 Q And so there may well be a connection, in

1 fact; is that correct?

2 MR. KRAVITZ: Are you talking about any
3 particular appointment?

4 MR. PORTNOY: I'm going to object to that.
5 A connection is not the same as an observation that
6 two facts exist, one fact being that an individual
7 made a campaign contribution, another fact being that
8 that individual received an appointment. And I don't
9 want Mr. Smith to be in the position of testifying to
10 a connection if all he's doing is acknowledging that
11 both those facts exist.

12 So if Mr. Smith wants to be clear on that,
13 that would be fine.

14 BY MR. BRENNER:

15 Q Mr. Smith?

16 A Yes.

17 Q You still there?

18 A Are you all clear on it? You lost me.

19 Q I think that's all we have.

20 THE WITNESS: Okay.

21 MR. BARTOLOMUCCI: Sounds like that's it,
22 Mr. Smith. Thank you very much.

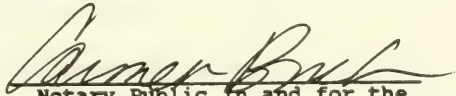
1 (Whereupon, at 11:59 a.m., the deposition
2 was concluded.)
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4

5 W. MAURICE SMITH, JR.
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

143

I, CARMEN BUNCH, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires MARCH 14, 1998

**DEPOSITION OF GEORGE H. WRIGHT, JR.
IN RE: S. RES. 120**

WEDNESDAY, APRIL 24, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of GEORGE H. WRIGHT, JR.,
called for examination pursuant to notice of deposition, at 2:15 p.m.
in Room 640-A of the Hart Senate Office Building, before JOANNE
LIVERANI, a Notary Public within and for the District of Colum-
bia, when were present:

MICHAEL P. O'CALLAGHAN, Esq.
Majority Associate Special Counsel
MITCHELL FEUER, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

WILLIAM RANDAL WRIGHT, Esq.
Wright & Burke
P.O. Box 1317
Hope, Arkansas 71802-1317
On behalf of the Deponent.

CONTENTS

WITNESS**EXAMINATION**

George H. Wright, Jr.	
by Mr. O'Callaghan	5
by Mr. Feuer	54
by Mr. O'Callaghan	64

P R O C E E D I N G S

1 MR. O'CALLAGHAN: Good afternoon,
2 Mr. Wright. My name is Michael O'Callaghan. I am
3 associate special counsel for the Special Committee.

4 This afternoon this deposition is being
5 conducted pursuant to Senate Resolution 120. The
6 resolution establishes a Special Committee
7 administered by the Banking Committee to conduct an
8 investigation involving Whitewater Development
9 Corporation, Madison Guaranty Savings & Loan
10 Association, Capital Management Services, Inc., the
11 Arkansas Development Finance Authority and other
12 related matters.

13 This deposition is in advance of public
14 hearings which are going to occur next week and there
15 is a chance you will be called to testify at those
16 hearings.

17 Today we will ask you a series of
18 questions, ask you to testify under oath. If you
19 don't understand a question, let me know and I will
20 rephrase it. The same thing for Mr. Feuer. If you
21 need a break, let us know and we will accommodate

1 you.

2 We have a stenographer with us today who is
3 preparing a record of questions and answers. The
4 deposition will be treated as committee confidential
5 until the commencement of the hearings. Prior to the
6 hearings, you will be given an opportunity to review
7 your transcript of your deposition and also to make
8 any changes for correction on an errata sheet which
9 we will supply you.

10 You may be represented by counsel today.
11 Are you represent by counsel, sir?

12 THE WITNESS: Yes, I am.

13 MR. O'CALLAGHAN: Could Counsel state your
14 name and the name and address of your firm.

15 MR. WRIGHT: William Randal Wright, Wright
16 & Burke, Attorneys, P.O. Box 1317, Hope, Arkansas
17 71802-1317.

18 MR. O'CALLAGHAN: Could you spell the
19 second name in the name of the law firm, please.

20 MR. WRIGHT: Yes, B-u-r-k-e.

21 MR. O'CALLAGHAN: Objections to the form of
22 questions will be noted for the record. Counsel may

1 object on grounds of privilege or relevance. And the
2 Committee Chairman may rule on objections where the
3 witness refuses to answer a question.

4 Mr. Wright, do you agree to be sworn in
5 over the telephone?

6 THE WITNESS: Yes, I do.

7 MR. O'CALLAGHAN: Could you please swear
8 the witness.
9 Whereupon,

10 GEORGE H. WRIGHT, JR.

11 was called as a witness and, having first been duly
12 sworn, was examined and testified as follows:

13 EXAMINATION

14 BY MR. O'CALLAGHAN:

15 Q Could you please state and spell your full
16 name for the record.

17 A My name is George, G-e-o-r-g-e, H. Wright,
18 W-r-i-g-h-t, Jr.

19 Q Have you spoken with anyone other than your
20 counsel prior to today's deposition, about the
21 deposition?

22 A No, I have not.

1 Q Did you do anything to prepare for the
2 deposition; review documents, anything like that?

3 A No, sir, I did not.
4
5
6
7

8 Q Are you currently employed?

9 A I am employed by Columbia Medical Park
10 Hospital in Hope, Arkansas.

11 Q What is your present position?

12 A I am director of marketing and business
13 development for Medical Park.

14 Q For Medical Park?

15 A It is Columbia Medical Park Hospital.

16 Q Thank you.

17 It is a little difficult sometimes to
18 hear. I apologize if I ask you to repeat.

19 A That's fine.

20 Q Could you give me -- first of all, are you
21 a high school graduate, sir?

22 A Yes, I am.

1 Q Could you give me a history of your
2 education since you graduated from high school.

3 A I graduated from high school, I graduated
4 in 1969 from Arkansas State University with a degree
5 in business administration. I've not pursued a
6 higher degree.

7 Q And could you give us a description of your
8 employment between the time, January 1982 through the
9 end of October 1986?

10 A Okay, January 1982 till September of 1985 I
11 was a partner with Gus Hogan in the -- in a real
12 estate company in Hope, Arkansas called Hogan Realty,
13 Inc. And from September of '85 till January of '86, I
14 was employed by Farmers and Merchants Bank, in
15 Rogers, Arkansas. January of -- January of '86 till
16 sometime in the summer of '87, I was employed by
17 Rector Phillips Morris, a real estate company in
18 Little Rock, running their mortgage company.

19 After that I worked for the next year and a
20 half, I believe, with Twin City Mortgage Company in
21 North Little Rock. After that, in '89, sometime in
22 January of '89, I moved back to Hope and worked for

1 Hope Auto Company until January of '92, in which I
2 started working for Medical Park Hospital.

3 Q Okay, during that time period, did you
4 serve in any state boards or commissions?

5 A Yes, from January or February of '83 until
6 January of '90 or somewhere around the end of the
7 year of '90 -- I can't remember if we went off --
8 anyway, I served seven years on Arkansas Housing
9 Development Agency, which later became the Arkansas
10 Development Finance Board, for the state of
11 Arkansas.

12 Q Were you appointed to that position?

13 A Yes, I was.

14 Q And who appointed you?

15 A Governor Bill Clinton.

16 Q And how long -- did you have more than one
17 term there?

18 A Actually, for the Arkansas Housing
19 Development Agency Board it seemed like there was a
20 five-year appointment. And then when they
21 reorganized it and it became the Arkansas Development
22 Finance Authority, I finished out a term, which was

1 the -- the total was for seven years, but I don't
2 think there was actually a reappointment. I think
3 they staggered the terms of the board members at that
4 time, and whatever it was. I only served as far as
5 one appointment, as well as I remember that.

6 Q Had you made a request to be appointed to
7 that board?

8 A No, I didn't.

9 Q Do you know if anyone recommended you to
10 the board?

11 A Do I know who recommended me?

12 Q Whether anyone did, yes, sir.

13 A I am sure there's some friends of mine down
14 here in Hope that recommended me to the governor, an
15 appointment for that vacancy of which at the time, in
16 '83, there was a guy named Gerald Keith that was
17 from Hope that was going off the board. But I don't
18 know who it was.

19 Q Before you were appointed, did you express
20 an interest to anyone with regard to your desire to
21 become an AHDA board member?

22 A No, sir.

10

1 Q Did there come a time when you became a
2 chairman of the agency?

3 A Yes, sir, in 1985. I think the -- during
4 the year 1985 is when -- during the middle of the
5 year is when the board changed from the Arkansas
6 Housing Development Agency to the Arkansas
7 Development Finance Authority, and I was chairman of
8 the Arkansas Housing Development Agency at the time
9 it changed over to -- to the Development Finance
10 Authority, and so I remained through that year. I
11 served one year as chairman.

12 Q Prior to being chairman, what was your
13 position?

14 A Board member.

15 Q Do you know a gentleman by the name of Dan
16 Lasater?

17 A Know of him. I don't know that I've -- and
18 I have probably seen him but I don't know that I have
19 ever officially met him.

20 Q Do you know if Mr. Lasater ever recommended
21 you for the chairmanship of the Arkansas Housing
22 Development Agency?

1 A I do not.

2 Q I have a letter before me, which
3 unfortunately I haven't been able to provide you due
4 to the confidentiality agreement we have with the
5 entities we subpoenaed for documents. It is a
6 three-page document, totals a two-page letter. The
7 document Bates stamps are DKS N 027455 through 27457.

8 It is a letter on Lasater Farms stationery
9 dated December 14, 1983. It is addressed to "the
10 Honorable Bill Clinton" and it is signed "sincerely,
11 Dan R. Lasater."

12 And on the first paragraph, on the second
13 page the paragraph which reads, "with regard to the
14 board of the Arkansas Housing and Development Agency,
15 it is our understanding that the chairmanship rotates
16 annually. Based on this understanding we would like
17 to recommend our mutual friend, George Wright, for
18 the chairmanship. George has expressed an interest
19 in the chairmanship and we believe he would take the
20 time and devote the energy necessary to do a good
21 job."

22 Did you know anyone else at the firm of

1 Collins, Locke & Lasater or Lasater & Company?

2 A I can't remember his name. Michael -- I
3 can't remember -- I can't recall his last name right
4 now.

5 Q Is it Michael Drake perhaps?

6 A Yes. Michael Drake usually made the -- the
7 board meetings of the Arkansas Housing Development
8 Agency, as did a lot of investment bankers in the
9 state.

10 Q And did you have any conversations with
11 Mr. Drake about a desire to become chairman of the
12 board?

13 A No, sir, I did not.

14 Q After I read that passage to you, does that
15 help refresh your recollection as to whether you had
16 any conversations with Mr. Lasater about this issue?

17 A I sure didn't. That was, what, September
18 '83?

19 Q I'm sorry, the letter is December 1983.

20 A December of '83?

21 Q Yes, sir.

22 A I can't remember ever having a conversation

1 desiring to be chairman of the Arkansas Housing
2 Development Agency. Like I said, it was a rotation
3 thing; if you are on the board long enough, sooner or
4 later it is probably going to come your time to be
5 put up for chairman. And I was only on there -- and
6 by December of '93 I was only on there not even a
7 full year.

8 Q That's December 1983; right, sir?

9 A That's what you said.

10 Q No, I think you said '93. I want to make
11 sure.

12 A Excuse me, '83.

13 Q Do you have any idea why in a letter to the
14 governor that Mr. Lasater would refer to you as a
15 mutual friend of his and the governor's?

16 A No. I am a mutual friend of the governor.
17 I mean I am a friend of the governor's.

18 Q How long have you known the governor?

19 A Since I was four years old.

20 Q Did the governor ever tell you that
21 Mr. Lasater was recommending you as a candidate for
22 chairman of the AHDA board?

1 A No, sir, he never did.

2 Q Did he ever relate to you that Mr. Lasater
3 recommended you for reappointment to the ADFA board
4 at any time?

5 A No, sir.

6 Q I have another document here. It is a
7 one-page letter on Lasater, Inc. stationery, and it
8 is dated May 1, 1985. It is addressed to "the
9 Honorable Bill Clinton," and reads "Dear Governor
10 Clinton." It reads, "it is with great pleasure that
11 we write to you in support of the appointment of
12 George Wright, Jr. to the position of board member,
13 Arkansas Development Finance Authority."

14 Were you aware -- does this help refresh
15 your recollection whether Mr. Lasater ever
16 recommended you for appointment to the ADFA board?

17 A I was unaware that Mr. Lasater ever
18 recommended me for anything.

19 Q Can you think of any reason why Mr. Lasater
20 would have recommended you for appointment to the
21 board?

22 A No, sir.

1 Q Did the governor ever relate to you -- does
2 that help refresh your recollection whether the
3 governor ever related to you about Mr. Lasater
4 recommending you?

5 A No, sir.

6 Q For the record, the letter I just read has
7 the Bates stamp on it, DKS N 027245.

8 During 1983, did you have any contact with
9 the governor?

10 A Did I have any contact with the governor?

11 Q Yes, sir.

12 A Not that I can recall. I might run into
13 him at a -- at a political function or something.

14 Q Did you have any meetings or discussions
15 with him in connection with your work at AHDA?

16 A No, sir.

17 Q You seem pretty sure about that. Is there
18 any reason why you are --

19 A Because I have never met with the governor
20 concerning anything on that commission.

21 Q Did you, during this time period, have any
22 meetings with anyone at Lasater & Company?

1 A Lasater & Company?

2 Q Or Collins, Locke & Lasater, its
3 predecessor, as well?

4 A Outside of the board?

5 Q Outside of regular board meetings where I
6 guess you said Mr. Drake attended some meetings.

7 A Not that I can recall.

8 Q Did Mr. Drake ever come visit you, either
9 at your home --

10 A No, sir.

11 Q Did Mr. Drake or anyone from the firm ever
12 call you to -- in an effort to get business for
13 Collins, Locke & Lasater or Lasater & Company?

14 A Mr. Drake was at most of the board
15 meetings. And he was always expressing an interest
16 of being -- their firm being included on the -- as
17 underwriters on bond issues.

18 Q Did you have any conversations with him
19 outside of board meetings with regard to Lasater &
20 Company or Collins, Locke & Lasater's participation
21 in AHDA bond offerings?

22 A I do not recall any.

1 Q Do you recall the multifamily bond issue
2 that was voted on -- the selection of underwriters
3 that was voted on in the spring of 1983?

4 A The -- specifically?

5 Q Yes, sir.

6 A I do not specifically recall the issue.

7 Q I have before me some minutes of an AHDA
8 executive board meeting from March 18, 1983. I would
9 like to read you a brief portion from it.

10 A Okay.

11 Q I am reading from the third page of the
12 document. And it reads "Mr. Stout stated that AHDA
13 has received eight proposals on the proposed
14 multifamily bond issue, and sometime within the next
15 few days a multifamily subcommittee meeting would be
16 scheduled to review these proposals and recommend to
17 the full board their decision of underwriters for
18 this program." And that's dated March 16, 1983, I
19 guess would be the day before St. Patrick's Day.

20 Do you have any recollection of eight firms
21 putting in proposals for a multifamily offering
22 during that time?

1 A Well, not -- not specifically on that
2 issue, because generally -- hello?

3 Q Hello, we are still here.

4 A Okay. Generally, the way it was handled,
5 to accept proposal on a new bond issue as far as
6 underwriters go, that was a -- that was a process
7 that I believe the board undertook on most all
8 issues.

9 Q Did you serve on any subcommittees of the
10 agency?

11 A Yes, I did serve on a selection of
12 underwriters and bond counsel for several issues,
13 during the tenure of seven years.

14 Q Was it different subcommittees set up for
15 every offering, or was there a standing committee --

16 A I don't recall how they appointed it. It
17 seems like early on I was on more of those than later
18 on in the seven years, but I don't remember exactly
19 how that -- how that came about.

20 Q I also have before me -- I am trying to
21 help you remember, if possible, another Arkansas
22 Housing Development Agency subcommittee meeting.

1 These are minutes from the subcommittee meeting dated
2 April 1, 1983.

3 A Okay.

4 Q It is at 3:00, and the second paragraph in
5 the minutes read "the board members present were
6 Mr. Charles Stout, Mr. Mahlon Martin, Mr. George
7 Wright." Do you recall being on the multifamily
8 subcommittee? Does that help you remember, after my
9 having read that to you?

10 A Like I said, I was on several. But if it
11 says I was on that committee, I was on that
12 committee.

13 Q Okay. I am just trying to help you place
14 in time this particular offering that was being
15 contemplated.

16 A I can't remember any specific issue during
17 the whole seven years, because there were so many of
18 them.

19 Q Okay. During this particular meeting, it
20 reads on the last paragraph of the first page,
21 "Mr. Wright moved that Verex be accepted as mortgage
22 insurer, Mr. Martin seconded and the board passed the

20

1 motion. Mr. Stout mentioned that although
2 Mr. Hardwicke was not present, he had talked with him
3 on the phone and Mr. Hardwicke was in agreement with
4 Verex being selected as mortgage insurer." Do you
5 remember that happening?

6 A No.

7 Q On the next page is a paragraph which reads
8 "the members discussed at length the qualities they
9 were looking for in the underwriters who were
10 selected for 1983 proposed multifamily program.
11 Ms. Trent stated that all the underwriters requested
12 a chance to give oral presentations before the board
13 makes a decision. Mr. Williams suggested that the
14 underwriters should be willing to give this project
15 the full attention and do a good job for us."

16 Then the next paragraph reads "it was
17 finally determined that it would be in the best
18 interest of AHDA to invite each of the proposed
19 underwriters to deliver a 15- to 20-minute
20 presentation before the subcommittee, starting 9:30
21 a.m. Tuesday, April 12, and the subcommittee would
22 make recommendations to the full board the same day

1 at a 3:00 meeting."

2 Do you recall discussions of that nature --

3 A I remember -- there again, I couldn't
4 specifically name what firms made presentations, but
5 I do remember those long -- that long day of looking
6 at proposals.

7 Q Okay, was this the first multifamily issue
8 that the agency had contemplated while you were
9 there?

10 A I am sure it was, if it was early on in
11 '83.

12 Q Was that why the underwriters were asked to
13 come in and give their presentations?

14 A Probably.

15 Q Do you recall if Collins, Locke & Lasater
16 was one of the firms that gave a presentation?

17 A No, sir, I don't recall any of the
18 underwriters that gave them specifically. You know,
19 I just know there was quite a few.

20 Q Okay. Well, I am going to move on to the
21 next -- to April 12, 1983. I've got minutes from the
22 executive board meeting of Arkansas Housing

22

1 Development Agency.

2 A Okay.

3 Q And towards the -- on the fourth page of
4 this meeting, of the minutes for this meeting, it
5 reads "Chairman Stout stated that the multifamily
6 subcommittee heard oral presentations from the
7 underwriters early in the day and were prepared to
8 make recommendations to the full board this
9 afternoon. He asked Vice Chairman Hardwicke for the
10 subcommittee's recommendation."

11 It reads "Vice Chairman Hardwicke informed
12 the board that all the proposals were good and after
13 listening to eight proposals and considering each
14 carefully, the subcommittee would like to recommend
15 to the board that Merrill Lynch be the lead
16 underwriter, with Stephens, Inc. and T.J. Raney &
17 Sons, Inc. as locals."

18 And it continues "the board also
19 recommended that the Rose Law Firm be selected as
20 bond counsel. After motions were made and seconded,
21 the board unanimously approved the underwriters and
22 bond counsel recommended by the subcommittee."

1 Do you recall making that -- your
2 subcommittee making that recommendation to the board
3 on this multifamily deal?

4 A I do not recall making specifically any of
5 those. I do -- I am familiar with those firms.

6 Q Okay. Do you recall a time when additional
7 underwriters were added to that team that worked on
8 the multifamily issue?

9 A Do I recall specifically? There was some
10 added. I don't know when.

11 Q Do you know what the circumstances were of
12 the other firm being added?

13 A No, sir.

14 Q Was the purpose of the oral presentations
15 and the proposals that were submitted, was the
16 purpose of having the firms do that to give the board
17 an opportunity to weight the merits of the different
18 firms' ability to represent the agency? Is that
19 right?

20 A I think that's correct.

21 Q I have before me now a copy of board
22 minutes from a special executive board meeting dated

1 April 19, 1983, of the Arkansas Housing Development
2 Agency.

3 And towards the second to last page,
4 appears to be towards the end of the meeting, it
5 reads "upon Mr. Hardwicke's request for further
6 business, Mr. Wright made a motion that Collins,
7 Locke & Lasater be added to the underwriting team for
8 the agency's proposed 1983 multifamily issue, in
9 order to spread it around, include more local
10 Arkansas underwriters on this issue. Mr. Edwards
11 seconded the motion and the board approved same."

12 Do you recall on -- this was April 19. Do
13 you recall making that motion in front of a special
14 executive session of the AHDA?

15 A If it is there in the minutes I suppose I
16 did. I can't recall. That was 13 years ago.

17 Q Do you recall -- was that a common practice
18 to include firms in -- after a meeting had already
19 been held and other firms were selected at a previous
20 meeting?

21 A Was it a common practice? I am not sure.

22 Q My question is was this like a unique

1 happening or were firms usually chosen at one meeting
2 or were they added on as the process --

3 A Oh, no. I think I would have to look at
4 all that stuff to determine, you know, what the
5 board's thinking was, to do -- amend that, and add
6 more to it.

7 Q But --

8 A One thing we were concerned about during
9 the whole tenure is having good strong local firms
10 involved in our bond issues.

11 Q You don't recall specifically making the
12 recommendation that Collins, Locke & Lasater be
13 included in the 1983 multifamily issue?

14 A You recalled it for me on the reading of
15 that, and if it says that I did --

16 Q I am just wondering if independent of my
17 reading it for you, if that helps you remember?

18 A No, sir. No, sir.

19 Q During 1983, do you recall having a
20 conversation with Tom Carter of Collins, Locke &
21 Lasater?

22 A Tom Carter?

1 Q Yes, sir.

2 A I don't know that I know Mr. Carter.

3 Q Do you know whether or not Collins, Locke &
4 Lasater put in a proposal to be included as one of
5 the underwriters in this offering?

6 A I'm not for sure. Did they?

7 Q I'm sorry, sir, I am just asking you if you
8 remember.

9 A I am not sure.

10 Q Okay. In the minutes it said that the
11 reason they were being included was in order to
12 spread it around, include more local Arkansas
13 underwriters on this issue.

14 Was that a sentiment of yours or did you
15 receive that from other board members, do you recall?

16 A I think there were several board members
17 that that was a discussion of. During the whole
18 seven years, again, we thought it important to
19 include as many local firms as we could, as long as
20 it didn't raise the cost of the issue.

21 Q Did you have any communications with anyone
22 in the governor's office about the inclusion of

1 specific underwriting firms in bond offerings?

2 A No, sir.

3 Q Did you have any contact with anyone in the
4 governor's office about Arkansas Housing Development
5 Agency business in general?

6 A In general?

7 Q Yes, sir.

8 A Bob Nash from the governor's office would
9 come to our meetings on a regular basis. I think
10 his -- he was maybe senior adviser to the governor or
11 something, but he was at all of our meetings, I
12 believe.

13 Q Do the minutes of the meeting reflect
14 everyone who was present at the meetings?

15 A I don't know. Probably should.

16 Q Were you aware of any complaints that were
17 raised by any of the underwriting firms in the spring
18 of 1983 about the inclusion of other firms in that
19 syndicate?

20 A Seems like Stephens, Inc., one of the other
21 local underwriters -- I can't recall but it seems
22 like that they were unhappy or resigned off the issue

1 or something. I'm not for sure.

2 But that -- that's something in there, like
3 I remember something about Stephens being upset with
4 another firm being added to, and I guess
5 specifically, the Collins, Locke & Lasater deal.
6 That all happened around -- I mean if that was on
7 that particular issue, unless it was another issue
8 that I can't remember.

9 Q Okay --

10 A On one issue, Stephens resigned off of the
11 issue.

12 Q Did that surprise you?

13 A Yes.

14 Q Okay, and why? Had any other underwriters
15 ever resigned from a deal before?

16 A No. In fact, to my knowledge, I think
17 Stephens had been on every one of them. Yes, that
18 kind of surprised me.

19 Q Do you recall what their concerns were?

20 A No, I don't.

21 Q Did you have any discussions with Mr. Stout
22 about this?

1 A Did I have any discussions about it?

2 Q Yes, sir.

3 A I can't recall any of them I had. I can't
4 recall.

5 Q Do you recall how you became aware that
6 Stephens was dissatisfied?

7 A Resigned from a -- the issue, and I don't
8 know if it was that one, but some issue back then in
9 that time period, they did resign from the issue.

10 Q Did that cause the board members any
11 concern?

12 A Sure did.

13 Q Were there any discussions about the
14 resignation?

15 A I don't recall any specific instructions --
16 discussions.

17 Q Do you recall whether the -- any of the
18 board members discussed the fact that it -- discussed
19 the concerns of Stephens about another firm being
20 added out of turn?

21 A I don't recall that.

22 Q I've got a letter in front of me, on

30

1 Stephens, Inc. letterhead, dated April 28, 1983,
2 addressed to Mr. Charles Stout. Who was Mr. Stout?
3 Was he on the ADFA board?

4 A Charles Stout?

5 Q Yes. Or an officer of AHDA?

6 A He might have been the chairman of the
7 board at that particular time. Sounds like he was
8 chairman of the board at that particular time.

9 Q Actually the letter is addressed "Dear
10 Chairman Stout"?

11 A Yes, he was the chairman.

12 Q It reads -- I will read portions of the
13 letter. This might help you recall some things. "It
14 is with great regret that I must inform you that
15 Stephens, Inc. is withdrawing from the multifamily
16 housing issue to which we were recently selected as
17 co-manager along with Merrill Lynch; Pierce, Fenner &
18 Smith; and T.J. Raney & Sons."

19 Then, the fourth paragraph down reads "a
20 guiding principle of the agency from its inception
21 has been the requirement that professional firms,
22 including bond counsel and underwriters, be selected

1 on the basis of merit through written and oral
2 presentations. With exception of the most recent
3 single family issue, the agency has seen fit to
4 select the underwriters who had the most superior
5 combination of credentials which would benefit the
6 agency. Namely sufficient capital to underwrite,
7 strong sales capability, in-house technical
8 expertise, and the ability to continue to make a
9 market in the agency's securities in the secondary
10 market."

11 Next paragraph starts "with this knowledge
12 Stephens, Inc. responded to an invitation to propose
13 as managing underwriter to the multifamily issue. We
14 were very pleased to have been selected as
15 co-manager. We were looking forward to beginning
16 work immediately. In the meantime subsequent to our
17 selection, the board decided without discussion to
18 add to the underwriting group a firm which did not
19 submit a proposal under the agency proposal
20 procedures, which invited individual firm proposals.
21 Although it is certainly the agency's privilege to
22 appoint any firm, we would invite you to investigate

1 more carefully whether the added company meets the
2 standards of capital, experience, sales capabilities,
3 staff service, and market support which have been the
4 preference of the board in all previous issues."

5 Next paragraph reads "we are concerned that
6 such actions may be an indication of an erosion of
7 the independence of the board of directors, which if
8 publicly perceived can only be perceived adversely in
9 the market. It is therefore with reluctance that we
10 withdraw from this issue. We are hopeful this action
11 will not preclude us from participation in future
12 offerings of the Arkansas Housing Development Agency
13 assuming this selection is made on merit and
14 experience."

15 Did you ever see a letter that contained
16 the statements that I just read to you?

17 A I can't recall seeing that specific letter,
18 no.

19 Q Does this help: This is dated April 28,
20 1983. Is it your recollection that the firm that
21 they are referring to is Collins, Locke & Lasater?

22 A You know, I assume it is but I don't -- you

1 know, just from what you told me, I guess it was.

2 Q In the letter, it refers to a concern that
3 Stephens, Inc. had with regard to the credentials of
4 the firm that was added. Are you aware of whether --
5 what those concerns were specifically?

6 A No, but --

7 Q I'm sorry, what was that?

8 A No.

9 Q The letter invites the agency to
10 "investigate more carefully whether the added
11 company meets the standard of capital, experience,
12 sales capabilities, staff service, and market
13 support." Do you know if any kind of investigation
14 was ever done of that nature?

15 A I don't know that it was not.

16 Q But you don't know that one was --

17 A That's right, I don't know if it was. But
18 that was a -- normally we would look in on -- look at
19 those factors.

20 Q What type of review of the firms did the
21 agency make before they selected them as
22 underwriters?

1 A Like I said, we went through all the
2 written proposals and then went through the oral
3 presentations.

4 Q So basically the information you relied on
5 was provided by the underwriters?

6 A I am not -- not for certain and I can't
7 remember that far back. But I am not for certain
8 that any -- anybody outside the lead underwriter made
9 the oral presentations. I am not for certain that
10 the locals made the full preparations. I guess they
11 could have. I am just not -- I can't remember.

12 Q Do you recall if Mr. Drake ever made a
13 presentation before the board?

14 A I don't recall a specific presentation by
15 Mr. Drake. I don't recall if he did or not.

16 Q Do you recall if he ever made one of any
17 nature?

18 A As I say, Mr. Drake was at a lot of the
19 board meetings. I don't know if he ever made a
20 presentation for his company or not.

21 Q So your recollection of who did and did not
22 make proposals is unclear?

1 A That's true. I can't remember if Stephens,
2 Inc. or T.J. Raney & Sons made oral presentations.

3 Q Did the AHDA board ever consult with the
4 NASD or the SEC with regard to background on the
5 firms they selected to do underwriting?

6 A Not to my knowledge. I -- you know, I
7 don't remember such.

8 Q Do you have any knowledge of whether
9 Collins, Locke & Lasater had any net capital
10 difficulties in 1983?

11 A Sure don't.

12 Q You never heard that?

13 A No, sir.

14 Q Did there ever come a time when the
15 Arkansas Development Finance Authority determined
16 that either Collins, Locke & Lasater or Lasater &
17 Company should not be included on the list of
18 eligible underwriters to do offerings?

19 A I am not familiar with that if it was.

20 Q Were you ever aware of any discussions to
21 that effect between board members?

22 A No, sir, I don't recall anything like

1 that.

2 Q Mr. Wright, you said you have known the
3 governor since you were about four years old; is that
4 right?

5 A Yes, sir.

6 Q And do you consider yourself a good friend
7 of the governor's, the former governor?

8 A Well, I -- my parents and his mother were
9 close friends. My father was a physician, his mother
10 was the nurse. And before they left Hope they were
11 associated, as I guess you would say, since they were
12 both health care professionals. And the -- we have
13 always kind of kept in touch over the years. But
14 we're not -- he doesn't call me when he comes to
15 town.

16 Q Okay. Did he -- did he call you before
17 your appointment to the AHDA board?

18 A No, sir.

19 Q You didn't have any discussions about it?

20 A No, sir, I did not personally have any
21 discussions with the governor about my appointment to
22 the board.

1 Q Did he call you after your appointment?

2 A Somebody from his staff did, I'm not -- I
3 don't recall him doing it.

4 Q Did you have -- between 1983 through 1986,
5 did you have any discussions with him about the work
6 you were doing at AHDA or ADFA?

7 A Normally the governor would make a meeting
8 a year before -- at least come by before we would go
9 into our board meetings. I can't recall if he ever
10 stayed for one but, you know, it was no specific
11 conversation other than coming by to say hello.

12 Q So he never called you up to ask you how
13 the agency was doing?

14 A Absolutely not. I never had a conversation
15 with the governor about the agency.

16 Q During 1983 through 1986, were you familiar
17 with anyone in the governor's office other than Bob
18 Nash?

19 A Nash might have had responsibility or
20 liaison between our agency and the governor's
21 office. I can't recall anybody else in the
22 governor's office that I personally knew with the

38

1 exception of a gentleman by the name of Brady
2 Anderson. Seems like he was working in some capacity
3 over there and I knew him several years before, so --

4 Q Do you know why you were chosen to serve on
5 the AHDA board?

6 A Maybe because of our friendship from the
7 years -- from past years. Maybe because of his ties
8 to Hope and -- since he and I are the same age, we
9 went to kindergarten together, we went through first
10 grade together, kept up with each other over the
11 years, friendship.

12 Q When you got the appointment, did you call
13 to thank him or did you try to do that?

14 A No, sir. That's -- I guess that would be
15 proper. I don't know.

16 Q When you got the call from the person from
17 the governor's staff to tell you you had been
18 appointed -- you were going to be appointed to the
19 board, did they -- what was the contents of that
20 conversation?

21 A I think I found out about it by reading it
22 in the paper, that I was appointed. I don't believe

1 and I can't remember, there again, if somebody from
2 the staff called me or not. I'm sure they did,
3 because you know they would need to notify you;
4 right? I can't recall who it was or if someone did
5 or --

6 Q Were you ever contacted by anyone in the
7 governor's office during your tenure at AHDA and
8 ADFA, did they ever inform you of a certain way the
9 governor's office was leaning with regard to any
10 underwriters participating in any issue?

11 A No, sir.

12 Q Did you have discussion about what the
13 governor's office policy was with regard to ADFA and
14 ADHA?

15 A No, sir.

16 Q Are you saying you didn't get any guidance
17 from the governor's office at all during your whole
18 time there?

19 A What do you mean by guidance?

20 Q Well, did --

21 A You mean the governor called me up and
22 telling me he wanted me to vote for something a

1 certain way?

2 Q We will start with that.

3 A No.

4 Q How about generally, did anyone from the
5 governor's office give you an idea of what policies
6 they wanted advanced or anything of any nature to
7 give you guidance of what the governor's view of how
8 to run the agency was?

9 A No, sir. No one from the governor's
10 office, that even includes Bob Nash, never
11 specifically stated how they wanted things done.

12 The staff over at the ADHA was a very
13 confident staff and the board of directors were in so
14 many cases. And everything took the recommendation
15 of the staff on a lot of issues, as I'm sure a lot of
16 agencies and companies and everything operate in the
17 same way, since I was on a -- at board meetings once
18 a month.

19 Q Are you aware of whether there are any
20 communications between the governor's office and any
21 of the staff members with regard to preference for
22 underwriters expressed by the governor's office?

1 A No, sir, I am not aware of anything like
2 that.
3 Q Have you ever heard that happen?
4 A No, sir.
5 Q Do you know anyone by the name of Patsy
6 Thomasson?
7 A That's the -- Thomasson? Yes, I do.
8 Q How about Patsy Thomasson?
9 A She was on the Highway Commission and then
10 later worked for the governor or something. I don't
11 know what order and when.
12 Q Were you aware that she was employed by Dan
13 Lasater at any time?
14 A I don't know that I remember that.
15 Q Did you have any contact with her while you
16 were a board member at AHDA or when it became ADFA?
17 A Again, she was probably at some board
18 meetings. I am not familiar with -- I don't know her
19 outside of a board meeting --
20 MR. FEUER: Mr. Wright, do you recall that
21 Patsy Thomasson attended a meeting of the AHDA board
22 or are you assuming that might have happened because

1 Mr. O'Callaghan just told you she worked for
2 Mr. Lasater?
3 THE WITNESS: I am assuming that might have
4 happened; I don't recall specifically that she was at
5 a board meeting. I know Patsy when I see her. But I
6 don't know if I would know if she walked in the door
7 today, because it's been a lot of years since I have
8 seen her.
9 BY MR. O'CALLAGHAN:
10 Q During the time you were a board member at
11 AHDA and ADFA, did you ever become aware that Dan
12 Lasater was under investigation for criminal
13 activity?
14 A Was it during that time that -- and you
15 will have to tell me this, because I don't know, was
16 it during that time he got in trouble over the --
17 what was it, drugs or something?
18 Q Well, when did you become aware of that and
19 how did you become aware of it?
20 A Newspaper. I don't know when it was. I
21 don't know what year it was.
22 Q Was this a subject of discussion between

1 board members?

2 A No, sir.

3 Q No discussion between board members about
4 the drug conviction of a president of one of the
5 companies that was doing business with the authority?

6 A Doing business with us when he was
7 convicted of drugs, I don't know.

8 Q You don't recall any conversations that
9 went on about that even after the fact?

10 A No, sir.

11 Q Are you aware whether any other board
12 members had discussions with Mr. Lasater during the
13 time you were associated with the AHDA or ADFA?

14 A No, sir, I am not.

15 Q Do you know if any of them were friends of
16 his?

17 A I don't.

18 Q Do you know if the governor contacted any
19 other board members while you were there about
20 underwriting business?

21 A No, sir. I don't know.

22 Q Have you ever heard that happen?

1 A No, sir.

2 Q Are you aware of any influence at all that
3 was exerted by the governor's office to have specific
4 underwriters included in bond offerings?

5 A I'm not -- I don't remember anything
6 specifically about the governor's office getting
7 involved in that.

8 Q Did you have any -- you said you don't have
9 any specific recollection. Do you have a general
10 recollection that that might have happened?

11 A No, I am just trying to anticipate what you
12 are leading to here.

13 I can't remember anybody -- my only
14 conversations with people at the governor's office
15 was generally during board meeting time, because I
16 only got to Little Rock during -- once a month. And
17 that would be Bob Nash and probably right before a
18 board meeting, just saying hi or -- you know, I
19 don't -- I don't remember anything specific about the
20 governor's office requesting anything.

21 Q I was also referring to whether or not you
22 know if they tried to make requests similar to that

1 of influencing what underwriters would be chosen, not
2 with just yourself but with other board members or
3 staff members of AHDA.

4 A I don't recall that.

5 Q Were the staff members appointed by the
6 governor as well? How did that work?

7 A I think the executive director or whatever
8 they call him now, whether it is president or what, I
9 think they were served as a -- appointment of the
10 governor or the governor placed this person in
11 there. I believe that's correct. I am not even sure
12 about that. But I don't think any of the other staff
13 members -- those folks are basically career -- people
14 in that field.

15 Q Okay. Have you ever heard any reports that
16 there was money laundering associated with any AHDA
17 or ADFA bond offerings?

18 A No, sir.

19 Q Are you aware of any political influence
20 that was exerted at all while you were at the agency
21 with regard to bond offerings?

22 A No.

1 Q Or any of the loaning practices of the
2 agency?

3 MR. FEUER: Michael, the lending practices
4 of the agency are not within the scope of the Senate
5 resolution. Our resolution authorizes us only to
6 look at bond underwriting contracts between ADFA and
7 Lasater & Company.

8 MR. O'CALLAGHAN: Again, Mitchell, once
9 again, the reason I asked the question was to develop
10 a basis to understand whether or not there was a
11 practice involved of using political influence in
12 association with the agency, and that would tend to
13 tell whether or not, more or less likely, the same
14 type of political influence was brought to bear with
15 the bond underwriting.

16 MR. FEUER: But the witness told you he is
17 not aware of any political influence brought to bear
18 on hiring underwriters. So it escapes me how any
19 testimony about lending practices is going to shed
20 any light on that.

21 MR. O'CALLAGHAN: He may not have been
22 aware of any influence brought to bear with regard to

1 the bond underwriting, but he may have knowledge
2 about political influence brought bear with regard to
3 lending practices.

4 MR. FEUER: He very well may but it is not
5 within the scope of our resolution.

6 MR. O'CALLAGHAN: It shows a pattern of
7 behavior consistent with --

8 MR. FEUER: Not when he's already answered
9 your questions with regard to the area that is within
10 our --

11 MR. O'CALLAGHAN: His knowledge may be
12 limited to one area and another witness may have
13 knowledge of political influence brought to bear with
14 regard to the bond underwriting.

15 MR. FEUER: We are only questioning one
16 witness at a time.

17 MR. O'CALLAGHAN: I understand that, but
18 the witnesses' testimony taken collectively is what
19 the committee is looking at.

20 BY MR. O'CALLAGHAN:

21 Q The question is whether you are aware of
22 any political influence being brought to bear in

1 connection with any loan activity of the agency.

2 A I sure wasn't.

3 Q You said you sure were not; correct?

4 A That's right.

5 Q It is just hard to hear you.

6 A I am not aware of it.

7 Q Have you ever heard that anyone at Lasater
8 & Company attempted to provide the governor or anyone
9 in his office with money or other types of
10 remuneration in connection with AHDA bond
11 underwritings?

12 A No, sir, I have not.

13 Q In connection with ADFA bond underwritings?

14 A No, sir.

15 Q Are you aware of whether anyone ever
16 offered a member of the AHDA or ADFA board cash or
17 other type of remuneration in connection with bond
18 underwritings?

19 A I am sure not familiar with that, no, sir.

20 Q Have you ever heard that that happened?

21 A I haven't heard of it.

22 Q Have you ever heard that anyone in the

1 governor's office, or the governor, was offered cash
2 or other types of remuneration in connection with a
3 police radio bond underwriting?

4 A No, sir, I have not.

5 Q Are you familiar with the relationship that
6 existed between Dan Lasater and Governor Clinton
7 between 1983 and 1986?

8 A Am I familiar with what now?

9 Q Relationship between Mr. Lasater and
10 Governor Clinton during 1983 through 1986.

11 A You mean there was a relationship, is that
12 what you are saying? I don't know.

13 Q Were you aware one existed I guess is the
14 first question.

15 Mr. Wright, did you hear that last
16 question?

17 A Was I aware if one existed. I answered no,
18 sir.

19 Q We didn't hear that here, sorry.

20 Are you aware whether -- rather, did any
21 AHDA or ADFA board members fly on any Lasater loaned
22 aircraft between 1983 and 1986?

50

1 A I am not familiar with it if they did.

2 Q Did you ever hear that it happened?

3 A No, sir, I can't recall if it did. I doubt
4 it. I doubt that that's going to happen to any board
5 member.

6 Q Did the -- did AHDA or ADFA have any
7 closing celebrations with regard to certain
8 offerings?

9 A Always had a closing dinner, usually in New
10 York, following any of the big bond issues.

11 Q Who provided the transportation for those
12 dinners?

13 A I would -- I would think that the agency --
14 I went to a -- if I went to a closing, for example,
15 the ticket was bought for -- as far as I know now,
16 bought by the agency. And with commercial, to New
17 York for the closing, might have been the cost of
18 the -- it might have been a cost of the issue, but it
19 was paid for by the agency or the -- out of the
20 closing costs. I am not too sure how that's done but
21 it is paid for by the issue, I believe.

22 Q Did anyone fly in a private aircraft up to

- 1 the closing dinners?
- 2 A To my knowledge they didn't.
- 3 Q Would that surprise you?
- 4 A It would be surprising -- for a board
- 5 member to fly in a private aircraft?
- 6 Q Yes, sir.
- 7 A Yes, that would probably surprise me a
- 8 little.
- 9 Q Why is that?
- 10 A Well, I -- I wouldn't think that that would
- 11 probably -- when the agency is going to pay for the
- 12 tickets, why would you fly any other way. I don't
- 13 know.
- 14 Q During the period 1983 through '86, did you
- 15 know who Roger Clinton was?
- 16 A Roger Clinton is Bill Clinton's younger
- 17 brother.
- 18 Q Were you an acquaintance of his at this
- 19 time?
- 20 A I knew who he was.
- 21 Q Did you have any knowledge of whether Dan
- 22 Lasater gave Roger Clinton a job during this time

- 1 period?
- 2 A I did not.
- 3 Q How about whether he loaned him any money?
- 4 A Did not know.
- 5 Q During the period 1983 through 1986, did
- 6 you attend any fundraisers put on for Governor
- 7 Clinton?
- 8 A During the period of '83 to '86? I've been
- 9 to a couple of state fundraisers for the governor. I
- 10 don't know specifically what the dates were.
- 11 Q Do you recall whether you attended a
- 12 fundraiser in 1984 that was sponsored by Mr. Lasater?
- 13 A I don't know if I did or not. I have been
- 14 to a couple of them in the state.
- 15 Q Did you ever attend any in Little Rock?
- 16 A Well, that would be where it was.
- 17 Q Okay. Are you familiar with a building
- 18 called Tapnel Hall?
- 19 A No. I don't know where it is.
- 20 Q Okay.
- 21 MR. WRIGHT: Are you referring to Trapnell
- 22 Hall?

1 BY MR. O'CALLAGHAN:

2 Q Excuse me, I misspoke. Trapnell Hall?

3 A I don't know exactly where it is.

4 Q Have you ever been there?

5 A I can't recall that I have been to Trapnell

6 Hall. I just don't know if I have been there or

7 not. I have been -- I was at the Excelsior at a

8 fundraiser at one time, it seems like I was at a

9 fundraiser -- I can't remember the name of that other

10 place. I don't remember outside of that.

11 MR. O'CALLAGHAN: I don't think I have any

12 further questions at this time. Mr. Wright, the

13 way -- both Mr. Wrights, the way this process

14 normally operates is that I am an attorney with the

15 Majority staff, I represent the Republican Senators,

16 and Mr. Feuer is a lawyer who represents the

17 Democratic Senators. And the Majority asks the

18 questions first and then the Minority follows, and if

19 I feel a need I will ask some follow-up questions,

20 and on and on.

21 So let me hand it over to Mr. Feuer right

22 now.

54

1 EXAMINATION

2 BY MR. FEUER:

3 Q Mr. Wright, let me introduce myself again.

4 My name is Mitchell Feuer. I am a lawyer on the

5 Democratic staff for the Senate Banking Committee,

6 and for purposes of this deposition, I'm going to ask

7 you some questions on behalf of the Democratic

8 Senators who serve on the Senate Whitewater

9 Committee.

10 A Okay.

11 Q This will be a little bit repetitious,

12 because I am going to cover some of the areas that

13 Mr. O'Callaghan has already covered and I apologize

14 for that, but those are the procedures we use.

15 If you don't hear my question, please let

16 me know and I will restate it. If you don't

17 understand my question, please let me know and I will

18 rephrase it so that we understand one another.

19 A Okay.

20 MR. FEUER: Off the record for just one

21 moment while the stenographer attends to her

22 machine. I will let you know when we come back on.

1 (Discussion off the record.)

2 BY MR. FEUER:

3 Q Mr. Wright, we are back on the record. Did
4 the board of the Arkansas Housing Development Agency
5 have a chairman?

6 A Did the board have a chairman? Yes, sir.

7 Q What were the duties of the chairman?

8 A To preside over the board meeting. Outside
9 of that, that was it. That was his main function.
10 He presided over the board meetings.

11 Q Did the chairman get an extra vote?

12 A Did he get to vote?

13 Q Did he get an extra vote?

14 A No.

15 Q Did he get to make any decisions without
16 the rest of the -- without the full board?

17 A I don't think he did.

18 Q How was the chairman of the board chosen?

19 A It was chosen from the board -- by the
20 board members.

21 Q And did the board members during the time
22 that you served on the board have a practice of

1 rotating the chairmanship among the members?

2 A Yes, sir. It -- as far as I remember, I
3 don't recall anybody ever taking a -- more than a
4 one-year rotation on it. There might have been a
5 case of more than that, but I doubt it.

6 Q Who was the chairman of the board when you
7 joined in 1983?

8 A I believe that -- it very well could have
9 been -- because I remember Charles Stout's name being
10 mentioned, it was probably Charles Stout. He was
11 probably the first chairman of my tenure on the
12 board.

13 Q And who had appointed Charles Stout to the
14 AHDA board?

15 A I think that Frank White, the Republican
16 governor, did.

17 Q Did Mr. Stout continue to serve as chairman
18 in 1983, even after Bill Clinton had become governor
19 of Arkansas again?

20 A I think maybe that was when he was
21 appointed or elected as chairman, but it could have
22 been the year before. I am just not for sure. He

1 was chairman as I came on.

2 Q When did you become chairman of the board?

3 A I believe it was like in January of '85. I
4 was chairman of the Arkansas Housing Development
5 Agency board in '85. And that's when it changed, in
6 '85, to increased authority, Arkansas Development
7 Finance Authority. I remained as chairman through
8 the rest of the year. It did it like midyear is when
9 that legislation made it the Arkansas Development
10 Finance Authority.

11 Q Were board meetings of the Arkansas Housing
12 Investment Agency public?

13 A Yes, sir.

14 Q Was public notice given before those board
15 meetings occurred?

16 A I believe that they had to give public
17 notice every time the board met. I am not absolutely
18 sure but I believe that there is some kind of a law
19 that they had to post a notice of a board meeting.

20 Q And did that continue when the housing
21 agency became the Development Finance Authority?

22 A I believe that's correct, sir.

1 Q When Bill Clinton became governor in
2 January 1983, did he have a policy of including a
3 greater number of firms in state bond underwriting
4 business?

5 A Did he have a policy of?

6 Q Yes, was his administration in favor of
7 that?

8 A I'm not familiar if they were or not.

9 Q Did AHDA use a greater number of
10 underwriters for bond underwriting business in 1983
11 and 1984 than the agency had used in 1981 and 1982?

12 A I would have to say that that's probably
13 true, but I'm not -- I don't know that without
14 looking back and seeing. I don't know. That's
15 probably the truth.

16 Q Did the AHDA board want local firms to be
17 included in bond issues?

18 A Yes, sir.

19 Q Why was that?

20 A We felt like that -- that this was a state
21 agency and that the local underwriters and bond
22 counsel and everything should be used to the extent

1 that we could use them, and I think that was the
2 feeling of most of the board members.

3 Q Do you recall Mr. Hardwicke expressing the
4 view that AHDA should increase the number of
5 underwriters that it used?

6 A I think that there were several board
7 members, and I can't specifically recall if
8 Mr. Hardwicke or Mr. Stout or -- any specific one but
9 I have heard that said before that they would expand
10 the number of local underwriters as long as it didn't
11 increase the cost of the issue.

12 Q At the time that Collins, Locke & Lasater
13 was added as an underwriter of multifamily housing
14 bonds, was Collins, Locke & Lasater already an
15 underwriter for the agency's single family housing
16 bonds?

17 A I'm not for sure.

18 Q If I told you that minutes of an AHDA
19 subcommittee meeting from February 1983 indicated
20 that the Dabbs Sullivan, Division G.K. Baum Company,
21 and Blyth Eastman, PaineWebber, T.J. Raney & Sons,
22 Stephens, Inc., and Collins, Locke & Lasater had been

60

1 chosen as underwriters for the single family bond
2 program, would you have any reason to think that
3 Collins, Locke & Lasater was chosen as an underwriter
4 for the single family program at any time later than
5 February of 1983?

6 A No, sir, if it says that in the minutes.
7 Usually the minutes are correct.

8 Q Were Collins, Locke & Lasater and Stephens,
9 Inc. competitors?

10 A Yes, sir.

11 Q When the AHDA issued bonds, did all the
12 underwriting firms share those bonds among
13 themselves?

14 A They -- they shared them in a way -- I
15 think this is the way they did it, is they -- each
16 firm took so many and were responsible for selling
17 those bonds.

18 Q And if more underwriting firms were
19 included, could that mean that each firm would have a
20 smaller number of bonds to sell?

21 A That's -- that's true.

22 Q And if a firm has a smaller number of bonds

1 to sell, is it likely to make less money than if it
2 had a larger number of bonds to sell?

3 A Yes, sir.

4 Q And would the inclusion of Collins, Locke &
5 Lasater as an underwriter in the multifamily housing
6 program mean that Stephens, Inc. might have fewer
7 multifamily housing bonds to sell if they had
8 continued in this program?

9 A Yes, sir.

10 Q Mr. Wright, did you feel in 1983 that the
11 board of the AHDA was an independent board?

12 A Did I feel that we were an independent
13 board, that we were able to make decisions, is that
14 what you are asking?

15 Q Yes.

16 A Yes, sir.

17 Q Have you learned anything since 1983 that
18 makes you think that the board was not independent in
19 1983?

20 A No, sir.

21 Q When the AHDA board was selecting
22 underwriters, did the AHDA board award business based

1 on which political candidates the different
2 underwriting firms had supported?

3 A I don't think that that's -- that entered
4 into it. I'm not a -- I'm not a politician. I don't
5 think that that was entered into.

6 Q Did the AHDA board select underwriters
7 based on who could raise money for the state of
8 Arkansas most cheaply?

9 A Well, I -- I would like to think that
10 that's -- that's certainly the consideration that the
11 board made.

12 Q Mr. Wright, were you aware at any time that
13 private sector individuals or firms made
14 recommendations to the governor regarding
15 appointments to the AHDA board or the ADFA board?

16 A No, sir, I was not. When that letter was
17 read a while ago, I never knew about that.

18 I -- I didn't know you make
19 recommendations. I know some friends of mine down
20 here had told me they recommended me for the vacancy
21 that was coming open in 1983 on the Arkansas Housing
22 Development Agency board. I was familiar with that

1 board because I was in the real estate business, and
2 that board was the one that provided first-time home
3 buyer money for a residence in Arkansas. And so,
4 like I said, a couple of friends of mine that lived
5 down here, was the one that recommended me to the
6 board, to my knowledge.

7 Q Were you aware that members of the state
8 legislature made recommendations to the governor
9 regarding appointments to those boards?

10 A I think that that might be a process,
11 because generally speaking, boards and commissions --
12 commissioners from this part of the state are
13 recommended by our state representatives and our
14 state senator. Certainly carries a lot of weight.

15 Q Mr. Wright, as far as you are aware, when
16 the Lasater firm underwrote bonds for AHDA and for
17 ADFA, was the Lasater firm at risk on those bonds
18 just the same as the other underwriters were?

19 A As far as I knew, yes.

20 Q And as far as you know, did the Lasater
21 firm find purchasers for those bonds, just as the
22 other underwriters did?

64

1 A As far as I knew they found purchasers.

2 Q Have you ever learned anything to the
3 contrary?

4 A No, sir.

5 Q Have any of the bonds issued by the AHDA or
6 ADFA gone into default that you know of?

7 A Not that I know of.

8 MR. FEUER: I have no more questions at
9 this time.

10 MR. O'CALLAGHAN: I just have a couple of
11 follow-ups and we should be done soon.

12 EXAMINATION

13 BY MR. O'CALLAGHAN:

14 Q Would you say that becoming an underwriter
15 for ADFA bond underwritings was a sought-after
16 business to get?

17 A Would I think that it would be a
18 sought-after -- an underwriter on the issue?

19 Q Yes, sir.

20 A I suppose it would. They -- they have
21 potential to sell bonds and their salespeople can
22 make money and they get -- there is some kind of an

1 underwriting fee that they get to split with the
2 other underwriters. I suppose that that would be
3 incentive to be an underwriter on the -- on the state
4 issues.

5 Q Okay, was the board ever lobbied by any
6 politicians of any sort to steer business one way or
7 the other?

8 A I do not recall any politician lobbying us.

9 Q For the state bond business at all?

10 A I don't recall that.

11 Q Anybody recommend friends that are in the
12 business to possibly join in on the underwriting?

13 A Could you repeat that question?

14 Q Sure. None of the politicians would make
15 recommendations as to what firms they thought would
16 be good for the agency to use?

17 A I certainly don't remember anything like
18 that.

19 Q I will take you back one more time to the
20 April 19, 1983 special executive board meeting where
21 you made the motion. It is on page 3 that Mr. Wright
22 made a motion that "Collins, Locke & Lasater be added

1 to the underwriting team for the agency's proposed
2 1983 multifamily issue." Do you -- did you recall
3 ever making a motion to recommend any other firms to
4 participate in an issue?

5 A I don't recall specifically, but it is very
6 possible that I did.

7 Q So you don't recall how it came to be that
8 you were the one that made the motion to include them
9 in the issue?

10 A No, sir. Obviously I felt that they should
11 be added to the issue.

12 Q Do you recall why you felt that?

13 A No, sir.

14 Q Do you know how many people Lasater &
15 Company had working in their -- or Collins, Locke &
16 Lasater had working in their underwriting department
17 in 1983?

18 A No, sir.

19 Q Did you know if there was anyone other than
20 Mr. Drake working in the department?

21 A No, sir, I don't.

22 Q Is that something that you looked at to see

1 what kind of staffers the underwriting firms had in
2 their underwriting departments?

3 A I am sure that we reviewed that but I'm
4 not -- I certainly don't remember.

5 MR. O'CALLAGHAN: I don't have any further
6 questions at this time. Well, Mr. Wright, thank you
7 very much for your time.

8 We will contact you soon to let you know
9 whether or not the Committee intends to call you next
10 week for the hearings which are occurring.

11 THE WITNESS: Okay.

12 MR. O'CALLAGHAN: Thank you very much.
13 Have a good day.

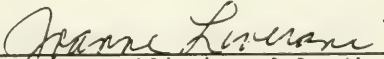
14 (Whereupon, at 3:50 p.m., the deposition
15 was concluded.)
16
17

18 GEORGE H. WRIGHT, JR.
19
20
21
22

CERTIFICATE OF NOTARY PUBLIC & REPORTER

68

I, JOANNE LIVERANI, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires

JULY 31, 2000

**DEPOSITION OF GEORGE E. LOCKE
IN RE: S. RES. 120**

THURSDAY, APRIL 25, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of GEORGE E. LOCKE, called for examination pursuant to notice of deposition, at 1:10 p.m. in Room 640-A of the Hart Senate Office Building, before JOANNE LIVERANI, a Notary Public within and for the District of Columbia, when were present:

MICHAEL P. O'CALLAGHAN, Esq.
Majority Associate Special Counsel
MITCHELL FEUER, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

CONTENTS

WITNESS	EXAMINATION
George E. Locke	5
by Mr. O'Callaghan	94
by Mr. Feuer	103
by Mr. O'Callaghan	105
by Mr. Feuer	108
by Mr. O'Callaghan	

1 PROCEEDINGS

2 MR. O'CALLAGHAN: Good afternoon,
3 Mr. Locke. My name is Michael O'Callaghan. I am
4 associate special counsel for the Special Committee,
5 and with me is Mitchell Feuer who is also counsel
6 with the Banking Committee. We will be conducting
7 today's deposition.

8 This deposition is being conducted pursuant
9 to Senate Resolution 120. The Resolution establishes
10 a Special Committee administered by the Banking
11 Committee to conduct an investigation involving
12 Whitewater Development Corporation, Madison Guaranty
13 Savings & Loan Association, Capital Management
14 Services, Incorporated, the Arkansas Development
15 Finance Authority and other related matters.

16 This deposition is in advance of public
17 hearings which are going to occur next week and there
18 is a possibility you will be asked to testify at
19 those hearings.

20 Today Mitchell and I will ask you a series
21 of questions. We will ask you to testify under
22 oath. If you don't understand a question at any

1 time, let me know and I will be happy to rephrase
2 it. And also because we are going over the phone
3 today, if you have trouble hearing a question, please
4 ask us to repeat it and we will repeat it.

5 THE WITNESS: I have a little hearing
6 problem but that's okay. I hear you fine.

7 MR. O'CALLAGHAN: We will try to speak up.
8 If you need a break at any time, we will be happy to
9 accommodate that as well. We have a stenographer who
10 is preparing a record of questions and answers.

11 The deposition will be treated as committee
12 confidential until commencement of the hearings.
13 Prior to the hearings, if you are called to testify,
14 you will be given the opportunity to review the
15 transcript of your deposition to make note of any
16 errors in transcription on an errata sheet, and if
17 you are called to testify you will be given a chance
18 to review your transcript before the commencement of
19 the hearings.

20 You may be represented by counsel today.
21 Do you understand that?

22 THE WITNESS: Understood, yes.

1 MR. O'CALLAGHAN: Are you represented by
2 counsel today?

3 THE WITNESS: No, I am not.

4 MR. O'CALLAGHAN: Any objection to the form
5 of the question will be noted for the record and
6 objections based on the ground of privilege --
7 objections may be made on the basis of grounds of
8 privilege or relevance, and the Committee Chairman
9 may rule on objections where the witness refuses to
10 answer a question.

11 THE WITNESS: Okay.

12 MR. O'CALLAGHAN: We are going to ask you
13 to be sworn in via telephone, and I believe you
14 agreed to that earlier.

15 Could you please swear the witness.

16 THE WITNESS: Yes, I am here.

17 Whereupon,

18 GEORGE E. LOCKE
19 was called as a witness and, having first been duly
20 sworn, was examined and testified as follows:

21 EXAMINATION

22 BY MR. O'CALLAGHAN:

1 Q Could you please state and spell your full
2 name for the record.

3 A My full name is George Edward Locke,
4 G-e-o-r-g-e, E-d-w-a-r-d, L-o-c-k-e.

5 Q Mr. Locke, did you speak with anyone prior
6 to this deposition about the deposition?

7 A Not really. Whenever -- the first
8 gentleman that called me, what was his name? One of
9 the gentlemen that called me earlier.

10 Q Probably Mr. Brenner.

11 A Brenner, I called Mr. Lasater to hear if he
12 heard of Mr. Brenner; we have all kinds of phone
13 calls down here. He said he thought he recognized
14 the name and that's about all I said to him. And
15 Mr. Collins, since we are here in the same office and
16 the night that Mr. Brenner called him -- or the day
17 he called him -- and called me -- I was at home and
18 Mr. Collins called to tell me that Mr. Brenner was
19 looking for me and would probably be calling me. And
20 that's about all that's been said about that.

21 I know you-all -- I know Mr. Collins has
22 already given a deposition to you-all, I think a

1 couple of days ago, but we on purpose have not
2 discussed anything that you discussed with him
3 because I thought the kind of question would be
4 coming. So I have not discussed it with him, no.

5 Q Did you have any discussions with
6 Mr. Lasater about any testimony he's given to the
7 committee?

8 A No, no, that was on purpose, too. When I
9 asked him about it, he was very short on the phone
10 with me and says George, I'm not going to talk to you
11 about anything; you are on your own. I said fine.
12 That was it.

13 Q Have you spoken with anyone else who has
14 been deposed before the committee or given testimony?

15 A Not to my knowledge. I really haven't
16 talked to anybody so I don't guess I have. I don't
17 know who has appeared before your committee, but I
18 haven't talked to anybody about it, no.

19 Q Did you speak with anyone about what the
20 anticipated substance of your testimony would be here
21 today?

22 A No. I read in the -- you sent me a copy of

1 the resolution.

2 Q Yes, sir.

3 A And I saw where it looked like where you
4 was talking about Lasater and some bonds and I
5 thought that's what you were going to talk to me
6 about, but I don't know for sure that's what you are
7 talking to me about.

8 Q Did you have any discussions?

9 A No discussions.

10 Q For purposes of this -- I know it is
11 difficult, I do it all the time, but if you could try
12 if you can to wait until the question has been
13 completely asked before you begin responding.

14 A I will do that.

15 Q That would be very helpful, thank you.

16

17

18 Q And are you currently employed?

19 A I am employed.

20 Q And where are you currently employed?

21 A With DAC Technologies, D-A-C Technologies,
22 Inc., Little Rock, Arkansas.

1 Q What is the address for DAC Technologies?

2 A It is 3905 West 81 Street, Little Rock,
3 Arkansas 72209.

4 Q What is your present position there?

5 A I am in charge of international sales.
6 Assistant vice president of international sales.

7 Q What was your -- where were you employed
8 between January 1982 through October 1986, if you can
9 give me a description of your employment history
10 during that time period?

11 A '82, I don't know -- there was a company
12 called Collins, Locke & Lasater. I worked there
13 until that was -- until Mr. Lasater bought that out.
14 And then I worked for the Lasater Company, up until
15 '86, yes. That was my primary -- that was my
16 primary occupation.

17 I had other interests in other things, but
18 some things up in Hamburg, Arkansas. I had an
19 insurance agency down there at that time that I
20 maintained but that was about it. And then I was in
21 the Arkansas Senate until January of '83, which is
22 kind of a part-time deal in Arkansas.

10

1 Q You were a state senator?

2 A Yes, state senator.

3 Q When were you elected to that office?

4 A The year was 1970 I was elected, and
5 started serving in January of '71.

6 Q Was there any reason why you left the
7 Senate?

8 A I got defeated. I didn't get enough votes.

9 Q That's how it usually happens.

10 A Yes, that happens.

11 Q Okay.

12 A Actually my district was down in southeast
13 Arkansas -- I don't know if you guys have been in
14 Arkansas or not -- and the capital is in the center
15 of the state and I was spending so much time up here,
16 I won't say I lost contact, but I wasn't down there
17 like I always was. And I had other interests, too,
18 but I got defeated.

19 Q Were you ever a partner with the Collins,
20 Locke & Lasater firm?

21 A I was the Locke in that. For a period of
22 time.

1 Q And how did that -- who were the principals
2 of the firm?

3 A At that time?

4 Q Yes, sir.

5 A David Collins and Dan Lasater and George
6 Locke. That was when it started, yes.

7 Q And did each partner have an equal equity
8 investment?

9 A At first, yes. At the beginning, yes, it
10 did for a period of time.

11 Q Did that come to change?

12 A Yes, it came to change. I can't tell you
13 exactly when, but maybe '82, somewhere along in
14 there. I got in some other business, related
15 business with my son-in-law and had to pledge my
16 stock to borrow some money for that venture, and
17 eventually I got in financial problems and couldn't
18 pay that.

19 I think Mr. Collins and Mr. Lasater, when
20 the bank was going to foreclose on the stock, bought
21 the stock back from the bank and I think they bought
22 it equal. I am not sure of that but I think

1 they did. But I continued to work there at that
2 time.

3 Q When did those proceedings take place?

4 A When did it take place?

5 Q Yes, sir.

6 A I really don't know for sure when they
7 were.

8 Q Was that in 1983?

9 A '82 or '83. I really don't remember.

10 Q Was that a Chapter 7 proceeding?

11 A Oh, no. You are talking about my
12 bankruptcy.

13 Q I'm sorry.

14 A You are getting ahead of yourself.

15 Q Okay. Okay, go ahead.

16 A This is when I got a little trouble, and I
17 borrowed some money and anyway -- no, this was before
18 the bankruptcy.

19 Q Okay, what were the circumstances
20 surrounding that?

21 A The stock transfer?

22 Q Yes, sir.

1 A I had pledged my stock to a bank here in
2 town, to borrow funds for my son-in-law to go into
3 the car business, the automobile business. And that
4 got into a little trouble and I didn't have the money
5 to pay the bank. And the bank was going to foreclose
6 on the stock on Collins, Locke & Lasater and
7 Mr. Collins and Mr. Lasater made arrangements, you
8 know, to pay off the loan and buy the stock back and
9 took it back into the company. And I think they took
10 it back in their names equally, I think. I am not
11 sure how it came back but I think they bought the
12 stock.

13 Q You don't recall when that occurred?

14 A I really don't. I think in '82. I
15 wouldn't swear to that.

16 Q Was that an event that was filed with the
17 securities regulators?

18 A With what?

19 Q With the securities regulators?

20 A I don't know anything about it, no. Just a
21 private transaction.

22 Q When that occurred, you were no longer a

14

1 partner; is that correct?

2 A I was no longer a partner. I was an
3 employee. I worked there.

4 Q What was your position at that point? Were
5 you a salesman?

6 A I think -- I think I was senior vice
7 president and I worked in the firm and I was part
8 salesman and I did a lot of public relations work for
9 the salesmen with their customers. I would go with
10 them to see their customers and probably help them
11 work with their customers; that's probably what I did
12 there.

13 Q During the time you were at the firm
14 between 19 -- say '82 through '86, was the firm of
15 the subject of sanctions by any regulatory agencies?

16 A I'm not sure exactly what sanctions were
17 there. I really don't know. I wasn't really that
18 involved in it, but I don't know. I don't know of
19 any -- I don't know if there was.

20 Q Do you recall whether in 1981 the firm was
21 sanctioned for excessive municipal bond markups?

22 A No, I am not aware of that. I don't

1 remember it.

2 Q In 1982 were you aware of any net capital
3 problems the company had?

4 A '82?

5 Q Yes, sir.

6 A It is still Collins, Locke & Lasater?

7 Q I believe so.

8 A I think from time to time we had some --
9 there were some conversations about net capital
10 problems.

11 Q Do you recall if that happened more than
12 once?

13 A No, I don't. I don't know how many times
14 it happened.

15 Q Have you ever personally been fined or
16 sanctioned for any securities laws violations?

17 A I really can't remember. Seemed like there
18 was one complaint back there. I don't know when I
19 ever got sanctioned or fined. I really don't
20 remember.

21 Q Did you have to pay a fine for any
22 regulatory agency for securities law violations, do

16

1 you know?

2 A I never paid any myself, no.

3 Q Do you know if the firm ever paid any?

4 A I really don't know.

5 Q The period of time between 1982 and October
6 1986, did any of the principals at Collins, Locke &
7 Lasater or Lasater & Company file for bankruptcy?

8 A In '82?

9 Q Yes, sir, '82 through '86.

10 A George Locke did, who had -- at the time I
11 filed the bankruptcy I wasn't principal at that
12 time. That was in the spring of '83. It was
13 involuntary Chapter 7.

14 Q Again between the time 1983 through 1986 --
15 or actually let me rephrase the question.

16 During the time you were at the firm, did
17 any of the principals at Collins, Locke & Lasater or
18 Lasater & Company have any conversations with Beverly
19 Bassett while she was securities commissioner?

20 A In what years was that?

21 Q Just during the time when she was
22 securities commissioner?

1 A Oh, I had a conversation with her before
2 she was appointed securities commissioner. And that
3 was the only one I remember. That was the only thing
4 I was ever involved in with her.

5 Q Are you aware of any conversations that
6 anyone at the firm had with her while she was
7 securities commissioner?

8 A I am not aware of it.

9 Q Was there a person at the firm who had
10 liaison responsibilities with the State Securities
11 Commission?

12 A I don't -- I really don't know. We formed
13 a -- I don't know what we even called it now, a
14 department kind of. It was interested in writing
15 bond issues and things of that nature, underwriting
16 department I guess you would call it maybe. And
17 there was -- as I remember, there was a gentleman,
18 seemed like it ended up being Michael Drake, that
19 headed primarily our government relations and bond
20 department, et cetera.

21 Q He was in charge of government relations
22 and underwriting?

1 A Yes, essentially Michael Drake headed up
2 that.

3 Q Are you aware whether Mr. Drake had any
4 communications with anyone at the State Securities
5 Commission with regard to inquiries into possible
6 violations of securities laws at the firm?

7 A I am not aware of that.

8 Q I have before me a document, multipage
9 document, bears the Bates stamp FBI 00003560 through
10 3568. And it is a copy of an FBI 302 form which is a
11 transcription of an interview conducted on -- at
12 least it was dictated on October 16, 1986, and it
13 refers to an interview that was conducted of you in
14 and around that time period.

15 A When was that?

16 Q October of 1986.

17 A Okay.

18 Q Do you recall being interviewed by the FBI
19 during that time period?

20 A I think that's the time, must have been
21 around the time that we had our problem with cocaine
22 stuff, yes, I remember that. I remember meeting with

1 them one time. I remember meeting with them.

2 Q Part of the transcription of that
3 interview, the -- on the first page it reads
4 "Mr. Locke made use of cocaine during business
5 meetings when David Collins and Dan Lasater were
6 present."

7 Is that consistent with your recollection
8 of --

9 A Now, what did I say?

10 Q It says "Mr. Locke admitted the use of
11 cocaine during business meetings when David Collins
12 and Dan Lasater were present."

13 MR. FEUER: Mr. Locke, this is Mitchell
14 Feuer. Before you answer I would like to say two
15 things. First of all, because you don't have the
16 benefit of this document in front of you,
17 Mr. O'Callaghan is not reading from a transcript of
18 any --

19 MR. O'CALLAGHAN: But --

20 MR. FEUER: It is not a transcript,
21 Michael, it is somebody's typewritten -- a typed
22 version of somebody's notes after conversation with

20

1 you.

2 THE WITNESS: Well --

3 MR. FEUER: Let me finish, sir.

4 And the second thing I will point out is
5 that the authority of this committee to conduct an
6 investigation is limited by the terms of the
7 resolution. Now that you have been provided a copy
8 of. And the resolution authorizes this Committee to
9 investigate bond underwriting contracts between
10 Arkansas Development Finance Authority and Lasater &
11 Company. It does not give us authority to
12 investigate anything having to do with Dan Lasater or
13 Lasater & Company, or anyone else.

14 Now I am not going to instruct you at this
15 time not to answer Mr. O'Callaghan's questions,
16 although you have that right to object to them,
17 because I think that it will -- if I instruct you not
18 to do that at this time it will just cause more time
19 and trouble on your part. But we don't have the
20 authority to investigate -- our charter is not to
21 investigate cocaine use or anything in the world that
22 pertains to Dan Lasater or Lasater & Company.

1 THE WITNESS: I wouldn't think so. I don't
2 remember saying that. I can tell you that now I
3 don't remember saying anything like that, because I
4 don't believe it is the truth.

5 MR. O'CALLAGHAN: For the record,
6 Mitchell -- for your edification and for the record,
7 the reason I brought this -- the notes of this
8 statement, which is done by the FBI investigator, was
9 to ascertain as to what the environment was and the
10 practices that were occurring at the firm during the
11 time that they were doing state business and doing
12 ADFA bond contracting.

13 THE WITNESS: I don't remember anything
14 like that happening during business hours.

15 BY MR. O'CALLAGHAN:

16 Q You don't recall cocaine being used in the
17 office during business meetings?

18 A No, no, I don't remember that. I don't
19 recall anything like that.

20 Q You mentioned earlier there came a time
21 when a gentleman by the name of Michael Drake was
22 hired by the firm to do underwriting; is that right?

1 A That's what my recollection is. He had
2 something to do with that.

3 Q Do you recall how he came to work for the
4 firm?

5 A I think he was working in Memphis, I
6 believe, and he came and interviewed for the job. I
7 don't remember. I wasn't involved with the hiring of
8 him but I think he was interviewed and hired for the
9 job.

10 Q Do you recall why he was brought in by the
11 company?

12 A Well, we had made a decision, I think, to
13 try to get into underwriting and to get some
14 expertise in it. And somehow Michael Drake's name
15 came up and he was recommended and he applied for the
16 job and he was hired. It is about that simple.

17 Q And the company was interested in getting
18 involved in underwriting for state bond issues?

19 A We were interested in getting into that
20 phase of it. We were primarily in the secondary
21 market; we were growing in it. And we thought -- we
22 were growing in the secondary market, we decided we

1 would try to get into the underwriting department
2 underwriting business. And there were a lot of
3 housing issues, et cetera, coming into the state and
4 we weren't equipped to do that, so we would beef up
5 and hire up. And the firm was growing and we hired
6 Michael Drake to head up that department, as I
7 remember.

8 Q Do you recall how many other people were
9 employed in that department?

10 A I really don't know.

11 Q Did you have any interaction with the
12 activities of Mr. Drake, with regard to his
13 underwriting?

14 A Very little.

15 Q How would you characterize your interaction
16 in that -- with Mr. Drake with regard to
17 underwriting?

18 A From time to time he would -- I just knew
19 what he was doing and what issues were coming up. He
20 just brought the information -- he didn't bring it to
21 the whole board. We would know what Michael was
22 doing.

1 Q You mentioned before that he was also head
2 of government relations; is that correct?

3 A I am not sure what his title was but I
4 think he handled that.

5 Q Did he ever seek your assistance in his
6 role in dealing with people in state government with
7 regard to lobbying efforts to get state bond
8 underwriting contracts?

9 A Not that I remember.

10 Q During the period, again the same period,
11 January '82 through -- actually, do you know Bill
12 Clinton?

13 A Do I know him?

14 Q Yes, sir.

15 A Yes, I know Bill Clinton, yes.

16 Q Have you ever met him?

17 A Have I ever met him? Yes, yes.

18 Q When did you first come to know him and
19 meet him?

20 A I believe I met Bill for the first time
21 when he was running for governor the first time. And
22 then of course I met him when he was governor because

1 he was governor the same time -- first term when I
2 was state senator, in 1981, I believe. Now wait a
3 minute, he must have been elected -- because Frank
4 White -- maybe '79. What was the first year he was
5 elected governor?

6 MR. O'CALLAGHAN: I believe that's right.
7 I don't have the --

8 THE WITNESS: I think Bill was, he was in
9 it for two years and then Frank White beat him. And
10 he came back and won again in '82, I believe, and he
11 started serving again in '83.

12 BY MR. O'CALLAGHAN:

13 Q Did you ever work on any Clinton campaigns
14 or inaugurals?

15 A No.

16 Q Did you ever make any contributions to any
17 Clinton campaigns or inaugurals?

18 A I don't remember. I probably gave money
19 for a contribution to the campaign. I probably did.

20 Q During the period January '82 through
21 October of 1986, did you have any contact with the
22 governor?

1 A From '82, yes, I had contact with him from
2 time to time. Yes.

3 Q What would be the circumstances of your
4 contact with the governor?

5 A Well, when I was a senator, it had to do
6 with legislation. When I was at the capitol
7 representing my district and different government
8 functions -- and we attended a lot of functions
9 together and different things. We weren't
10 buddies-buddies for your information. You know
11 different social functions and we would both be
12 attending. Legislating, him being governor, I saw
13 him quite often. Not on an intimate basis. You
14 know, nothing like that. That was '82 to '86.

15 One time I remember, after Bill got
16 defeated, it was a short time after the election, in
17 fact I want to think maybe the next day or a short
18 period of time after, I am not sure whether he
19 contacted me or one of his people contacted me, and I
20 can't tell you who it was or what, but the contact
21 was made, and he was ready to run -- he was back
22 running again. I mean he didn't take a day off, I

1 don't think.

2 And there was another group in town, still
3 very strong, very strong then, still very strong,
4 Stephens group, and they pretty well had
5 controlled -- I use that word loose, but pretty
6 tightly involved in most issues of the state, or bond
7 issues up to this point, before we kind of got
8 involved there a little bit.

9 They had supported Frank White, who had
10 defeated Bill, and so after Frank defeated Bill,
11 immediately he began to regroup to rerun. And he did
12 not know Dan Lasater at that time. And somebody
13 contacted me, and would I set up a meeting where he
14 could visit with Lasater and see if Dan would support
15 him in his efforts to regain the governor's seat.
16 And I did that and we had a meeting. I remember very
17 little about it. It was a pretty informal meeting.
18 Just wanted to meet each others. Wasn't big things
19 discussed. It was a case of meeting each other and I
20 do remember that, that one particular meeting.

21 Q Do you recall where the meeting took place?

22 A Where?

28

1 Q Yes, sir.

2 A It took place in a place called Quapaw
3 Towers in an apartment.

4 Q Whose apartment was it held?

5 A I believe Dan -- I believe Dan -- it was
6 Dan's apartment, I believe.

7 Q This was in 1980 after Frank White took
8 office?

9 A A day or two after the election, like in
10 November. I mean, I figure Bill would be somewhere
11 vacationing; he was running. I was shocked he wanted
12 to have this meeting but he wanted to know what he
13 did wrong, and taking advice more than anything else,
14 and trying to gather support.

15 So that's how it took place. The reason I
16 remember it so well -- it was late in the afternoon,
17 like 5:00, something like that, we got together after
18 work -- was that after about an hour, Bill kept -- he
19 was concerned he had to call Hillary and tell her he
20 would be right on home; every 15 minutes he would say
21 I will be right on home. That was about the most
22 notable thing about the meeting.

1 Q Every 15 minutes?

2 A If you know the President well, he likes to
3 talk. There was nothing decided there and nothing to
4 talk about but generalities.

5 MR. O'CALLAGHAN: Off the record.

6 (Discussion off the record.)

7 BY MR. O'CALLAGHAN:

8 Q Do you recall how long the meeting took?

9 A I would say a couple of hours. Like from
10 5:00 to 7:00.

11 Q Do you recall any of the specifics of the
12 conversation?

13 A I really don't. You know, it -- we talked
14 about what he was going to do professionally. He
15 was -- he didn't know either at that time. He had
16 some options what he was going to do, but the main
17 thing was talking about running for governor, and
18 wanted us to tell what mistakes we thought he had
19 made and kind of advise him and if he decided to run
20 for another term, would we support him.

21 Q And what was your response?

22 A Well, we didn't -- we told him we would

1 think about it, because Dan wasn't political at all,
2 he didn't know anything about politics at all. And I
3 wasn't going to commit; I wasn't either. And we told
4 him we would consider it. And what ultimately
5 happened, he did run and we did support him.

6 Q You mentioned earlier that Stephens, Inc.
7 had supported Mr. White?

8 A Yes.

9 Q Did he bring that up in the conversation?

10 A I don't remember. It was a pretty well
11 known thing. It wasn't a secret.

12 Q Did he explain to you the reason he was
13 meeting with you because Stephens supported White and
14 he was looking for support from another bond --

15 A I am not sure he said that. I think he --
16 I think he knew he probably couldn't go there and get
17 support. I just imagine that.

18 Q You don't recall him mentioning that or
19 that coming up?

20 A I don't remember him saying that. I don't
21 remember much about the conversations.

22 Q Do you recall having discussions about

1 economic development in the state; how to --

2 A That could have been mentioned. We talked
3 about a lot of generalities about the state and what
4 he thought would be good for the state and so forth
5 and what he had planned, but I don't remember any
6 specifics.

7 Q Was this the first time that Mr. Lasater
8 and Mr. Clinton met?

9 A As far as I know. They never had talked or
10 anything up until that time.

11 Q Was Mr. Lasater familiar with Roger Clinton
12 at that time, do you know?

13 A I don't think he was.

14 Q Do you know if he was familiar with
15 Mr. Clinton's mother, Ms. Kelly?

16 A At that time?

17 Q Yes, sir.

18 A Not to my knowledge.

19 Q Do you recall whether any illegal
20 substances were present during that meeting?

21 A I don't understand you.

22 Q Illegal substances is the question, whether

1 there were any illegal substances present at the
2 meeting?

3 A Illegal substances?

4 Q Yes, sir.

5 A No, no, not to my knowledge there wasn't.
6 I think we had a cocktail, but there was no illegal
7 substances there.

8 Q We all know there is nothing illegal about
9 a cocktail.

10 A No, I don't think so.

11 Q After the meeting with the governor, who
12 was then out of office, did he follow up with you-all
13 after that meeting? Do you recall if he --

14 A I don't remember exactly what happened and
15 what was the order. Of course you know Mr. White had
16 two years in office.

17 Q Yes, sir.

18 A And I believe -- I believe Bill went and
19 worked for a law firm in town and was practicing law,
20 as -- I think this -- and around the state getting
21 support to run, but not on a full-time basis. But I
22 can't remember what happened after that point in

1 time, whether there was another contact made or
2 whatever.

3 Q Was there a person at the firm who he
4 generally would contact if he wanted to contact
5 somebody there, either you, Mr. Lasater or
6 Mr. Collins?

7 A I don't know of anybody in particular he
8 would contact. I don't remember him ever calling me
9 necessarily. He had campaign managers, you know,
10 campaign people that would probably make the
11 contact. That's usually the way it is done.

12 Q Do you recall who that might have been?

13 A I don't have any idea. I don't.

14 Q Do you recall whether Governor Clinton ever
15 made any visit to the Quapaw Towers apartment on any
16 other occasions?

17 A That's the only time I remember, is that
18 one time.

19 Q Did he ever stop by the offices of Collins,
20 Locke & Lasater during the period '80 through '82?

21 A It seems like to me he came by one time for
22 a short period of time, we had a little -- at the

1 office there, kind of had a little meeting. And he
2 came by and just spoke to our staff and -- you know,
3 for about 15 minutes one time. And I just barely
4 recall that. I think he did that. I remember Bill
5 coming one time to the office.

6 Q Was this when he was running for governor?

7 A I think that's when he was running for
8 governor, yes.

9 Q That was before he was elected in '82; is
10 that right?

11 A Yes, I would say it was before he was
12 elected back in '82. It would probably have been in
13 '82 probably, I guess.

14 Q Did he stop in and meet with you,
15 Mr. Lasater or Mr. Collins or one of those two
16 gentlemen?

17 A Except this one time.

18 Q Other than the talk he gave to the staff,
19 did you-all meet with him separately.

20 A I don't remember meeting with him
21 separately. I don't remember us having any big
22 closed-door meeting the day he came to the office. I

1 just don't remember.

2 Q Did you-all ever go out to dinner or for
3 drinks at any time during this time period?

4 A I didn't. And I don't know that
5 Mr. Lasater ever did.

6 Q How did you first come to know Mr. Lasater?

7 A I don't recall the year. It was back in
8 the early '70s, or '70s. I am sure you all know
9 about Mr. Lasater. He was very big in the horse
10 racing business at one time, and of course Oakmont
11 Lawn race track was a very popular spot in the
12 spring; they have the racing over there. They had
13 his stable over there and he was pretty dominating
14 over there. I had a couple of old nags I messed with
15 and so I had a friend over there.

16 And one day I went to the races, and he
17 said there is a guy here you ought to meet. I was
18 single at the time and Dan was single at the time,
19 says there is a guy you ought to meet. He has been
20 out to the house, likes my wife's Mexican cooking. I
21 said who was that. He said Dan Lasater. I knew who
22 Dan was, I had read about Dan. Dan was a popular

1 figure in racing and everybody knew about Dan in the
2 race track. He said I'll invite you over one night,
3 you bring a date and Dan bring a date, and that was a
4 good idea.

5 We were at the race track one day, and we
6 were walking down the race track one day and ran
7 right into Dan, and he was on his way to the bar and
8 he said, John Starr, J-o-h-n, S-t-a-r-r -- not the
9 reporter down here but another guy. We met, Dan said
10 let me buy you a beer. And we went back to the bar
11 and had a beer and John told him about having --
12 going to have supper. He said fine.

13 So that's how I met him. And we went to
14 dinner that night at the gentleman's house and became
15 friends and that's about it. That's how it started.

16 Q Whose idea was it to start the company,
17 Collins, Locke & Lasater?

18 A That was David Collins's idea. David was
19 in the investment banking business in Memphis,
20 working for another firm over there, and he got
21 enthused about the business and he would call me from
22 time to time and say we need to start our own firm,

1 and so forth. And so he started coming to Little
2 Rock to talk to me. At that time Dan and I had
3 started a little hamburger thing. Dan started; I was
4 trying to tag along.

5 And there was a conversation that Dan and I
6 were having and finally Dan said I am tired of you
7 talking about it; if you are going to do it, you're
8 going to do it. If you aren't going to do it, don't
9 talk about it anymore.

10 So just like that we started it and we all
11 put up a certain amount of money and Dan and I
12 thought we would be passive investors and Mr. Collins
13 was going to run the firm, and of course the -- and
14 Dan and I were going to be passive investors. And we
15 started out like that, very small. And it kind of
16 grew and grew and we all became more involved as the
17 firm grew.

18 Actually it was Mr. Collins's idea to start
19 an investment banking firm because Dan or I, neither
20 one knew a lot about it at that time.

21 Q Did there come a time when Mr. Lasater was
22 more than a passive investor?

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1 A Yes, as we grew. And he had to -- he
2 invested more funds into it, more money into it
3 because we were growing because it was a capital
4 intensive business; the better you do the more money
5 it takes, and our sales group and et cetera. And of
6 course Dan had the largest stake to put into it, much
7 more than Mr. Collins and I did. So as he became
8 more involved, he put more of his money into it.

9 Q Around what time period did he become more
10 involved?

11 A Probably about '83, I guess, maybe. Of
12 course you know the history, that he bought
13 Mr. Collins out. I think that was in '83, wasn't
14 it?

15 Q During this time --

16 A Maybe I am getting ahead of you guys.
17 That's when he really got involved was when he bought
18 Mr. Collins out.

19 Q Now, between -- during this time period in
20 the early '80s and through the '80s, would you
21 consider yourself a good friend of Mr. Lasater?

22 A In the early '80s, yes. We were pretty

1 inseparable almost.

2 Q How long did that continue or does it still
3 continue?

4 A Until about '86. Well, actually I thought
5 about it, '85, late '84, '85 we weren't as close as
6 we had been.

7 Q During this time period, '84 through '85,
8 '86, what was the nature of Mr. Lasater's
9 relationship with the governor? He met him I guess
10 back in 1979 or 1980?

11 A Yes.

12 Q And then in and around 1982, what was the
13 state of their relationship?

14 A I would say --

15 Q Pretty good friends?

16 A Whatever the relationship they had was
17 primarily -- the most -- when Bill first got back
18 into office, like '83, somewhere along in there,
19 '84. I don't know what it was at that period of
20 time, because I was out of state in '83 and then I
21 moved to Chicago in '85, and -- I don't know what it
22 was.

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1 Q The 1983 time period you were still at
2 Collins, Locke & Lasater; isn't that right?

3 A I don't know when that dissolved. I am
4 trying to think. I don't know when that dissolved.

5 Q You were still working with Mr. Lasater?

6 A Yes, yes. Actually when he bought out
7 Mr. Collins, I still stayed with Lasater & Company,
8 doing about the same thing I was doing.

9 Q How often would you say during this time
10 period that Mr. Lasater saw Mr. Clinton? How often?

11 A At what time period?

12 Q 1982 until -- let's go 1982 to 1983 if you
13 can compartmentalize it like that.

14 A I would say very infrequent. I think --
15 because I was with Mr. Lasater almost all the time
16 and we had a party in Hot Springs once at the end of
17 the racing season and I believe the governor came to
18 that with about 25,000 other people, so it wasn't a
19 big deal.

20 Q That's an exaggeration; right?

21 A What's that? You know what, I bet there
22 were 25,000.

1 Q At the track?

2 A At the track, but we had a party and I
3 think everyone came to the party, I think. It looked
4 like it. You couldn't -- it was a lot of people
5 there, I will tell you that. But anyway, it was --
6 you know, I am trying to be very candid with you
7 because I think it is important to know this. They
8 were not bosom buddies and they were not speaking on
9 a daily or weekly or monthly basis, to my knowledge.
10 To my knowledge, I will say this, and I was with Dan
11 90 percent of the time, so I think I would know if
12 they were having long intimate conversations.

13 Q With regard to the business of the company,
14 are you aware of any conversations that Mr. Lasater
15 had with the governor with regard to the company's
16 interest in doing business with the state?

17 A I really was not. I was not involved if
18 there was any.

19 Q In and around 1983, how many times would
20 you say that Mr. Lasater and Mr. Clinton met with
21 each other, or at the same social events?

22 A 1983?

1 Q Yes, sir.

2 A I have no idea. But it was totally
3 infrequent, I can say that.

4 Q Can you give an estimate between 1983 and
5 1986?

6 A I will say the same thing, very
7 infrequent. I would say very few times. I don't
8 know how many of them. I don't have any idea.

9 Q How about your contact with the governor
10 during that time period?

11 A Not very often. I was out of politics at
12 that time. Let's see. I moved to Chicago in '85,
13 '86. I don't remember any times I was with him
14 during those periods of time.

15 Q Did he ever attend any of the company's
16 Christmas parties?

17 A Did he ever go to the Christmas parties?

18 Q Yes, sir.

19 A I remember the Hot Springs party, the
20 racing track party. I don't remember -- I am not
21 saying he didn't come but I don't remember him being
22 there.

1 Q Okay.

2 A He could have been there. I just don't
3 know. I don't remember.

4 Q Was the party at the race track a Derby Day
5 party?

6 A Yes. It was a Derby Day party. Yes.

7 Q During the period 1983, say through 1985,
8 were you familiar with Roger Clinton?

9 A '83 to '85? Yes, I knew Roger.

10 Q How did you know Roger?

11 A I don't know how I met Roger. I can't
12 answer that question. He just was around.

13 I don't know -- I don't know how I met
14 Roger. I don't know how I first met him. Because he
15 was Bill's brother, not that he was around Bill that
16 much. Probably just a social event. I don't really
17 know how I met Roger.

18 Q Would you say you were friends with him
19 during this time period?

20 A We were acquaintances, he was kind of a
21 friend, yes.

22 Q Did you and Mr. Lasater spend time with

1 Mr. Clinton from time to time, Roger Clinton?

2 A Yes. He was around -- he came to parties,
3 different things at that time. I know Roger was a
4 big racing fan at that time. And he liked to talk to
5 Mr. Lasater about racing and what have you. I think
6 even one time he went down and went over
7 Mr. Lasater's farm one summer sometime.

8 Q Do you know how he came to work for
9 Mr. Lasater?

10 A No, I don't.

11 Q Were you ever aware that the governor asked
12 Mr. Lasater to hire Roger Clinton?

13 A I was not aware of that.

14 Q Are you aware whether Mr. Lasater ever
15 loaned Roger Clinton money?

16 A I am aware of that.

17 Q How did you become aware of that?

18 A Well, we were -- we had offices in Florida
19 at that time, in Fort Lauderdale. And I -- one day
20 we were supposed to be flying down to Florida for a
21 meeting, and we were leaving the building to go catch
22 the plane to go to Florida, about midday, noon-ish or

1 thereabouts. And Roger came to the front door in
2 kind of a panic, and he pulled Dan off to one side
3 and they had a conversation, and a very short
4 conversation, and we left.

5 I didn't know what it was all about at the
6 time. I just knew Roger looked like he was in a
7 hurry, a panic, and Dan was a little irritated
8 handling what he had to deal with. He was patient at
9 times, but we were already late and here was Roger
10 running in with a problem, and I had no idea what it
11 was. And later Mr. Lasater told me Roger had a
12 problem, and had something to do with a drug problem
13 and he wanted to borrow some kind of large sum of
14 money; it was more than 20-something thousand dollars
15 or something like that.

16 And Dan said Roger, no way. He said what
17 do you have to have. And Roger came up with another
18 number, and maybe \$8000, I got to have 8000. And Dan
19 just -- that was a whole lot back then. It wasn't a
20 lot of money to him, although it is a lot of money.
21 Well, Roger, go upstairs, and he called -- cut Roger
22 Clinton a check for \$8000, something like that. And

1 that was about the size of it. And that's exactly
2 how it happened. That's my recollection.

3 Q Are you aware whether Mr. Lasater ever
4 contacted the governor to let him know about the
5 loan?

6 A I don't know anything about that. No, I
7 don't know that. It wouldn't have been his nature to
8 do so, I don't think. But I don't know.

9 Q He didn't call out of concern to tell him
10 about his brother's problems?

11 A I don't think Dan would have volunteered
12 it. I guess if the governor called and asked him, he
13 might have told him, but I don't know. I don't
14 really know.

15 Q Are you familiar with anyone by the name of
16 Patsy Thomasson?

17 A Yes, I know Ms. Thomasson.

18 Q How do you know Ms. Thomasson?

19 A You know how I know Ms. Thomasson? Patsy I
20 know a long time. We dated about five years, back
21 in -- oh, golly, in the '70s. And she was from my
22 district at that time and I think she was working for

1 Mr. Mills at that time in Washington -- I don't
2 know -- maybe she was or wasn't. And we met.
3 Through a consequence of events we started dating and
4 we dated about five years and that was it.

5 So, yes, I do know Patsy. I don't have any
6 contact with her now but I did know her.

7 Q Were you dating at the time you were in
8 business with Mr. Lasater?

9 A Yes.

10 Q Was she working at the firm at any time?

11 A No. Wait a minute now. Let me think about
12 that a minute.

13 Q Okay.

14 A I don't think I was dating her during the
15 time I was -- we were in the business. I dated her
16 back before that time, I think. As I am trying to
17 get that straight, because I believe I dated Patsy --
18 we broke up in the late '70s, I think, before Dan and
19 I actually went into the investment banking business
20 per se. Dan and I were friends. I dated while we
21 were friends but not while we were in business
22 together.

1 Q Okay. Did there come a time where she came
2 to work for Collins, Locke & Lasater or Lasater &
3 Company?

4 A Yes. Yes. At the time she came to work up
5 there, yes.

6 Q Was she friends with Dan Lasater before she
7 came to work?

8 A Yes, through my relationship, when she was
9 dating me back there, she knew Dan.

10 Q Was she also friends with the governor?

11 A I don't remember her being close. She knew
12 the governor. Patsy was pretty political, but I
13 don't know of them being close friends at that time.
14 He wasn't one of her close political friends. She
15 had closer political friends than that.

16 Q If someone from the company was going to
17 contact the governor's office, other than one of the
18 principals, would it normally be Ms. Thomasson?

19 A You are talking back in the '80s?

20 Q Yes, sir.

21 A It could have been. But she wasn't that
22 close in that administration. She could have been,

1 of course, I don't know.

2 Q Do you know anybody by the name of Maurice
3 Smith?

4 A Maurice Smith?

5 Q Yes, sir.

6 A Yes, I do.

7 Q How do you know Maurice Smith?

8 A He was a -- involved in politics, which is
9 a pretty wide, broad statement. Maurice was always
10 very prominent in the state and I believe he was on
11 the Highway Commission, and he also worked I believe
12 in Bill's administration as kind of his top aide.

13 I know when I was in the city, Maurice
14 would come down to the city to talk to us, kind of be
15 a liaison. It was a guy I always knew. He was
16 Highway Commissioner for years out there.

17 Q Was -- Ms. Thomasson was on the Highway
18 Commission, was she not?

19 A Yes, she was appointed by David Pryor,
20 Senator Pryor, during his term. It is a 10-year
21 term.

22 Q Were the three of you friends?

1 A Three who? Which three?

2 Q You, Mr. Smith and Ms. Thomasson?

3 A I wouldn't call Maurice a close friend. I
4 knew Maurice but the three of us never went around
5 together. But Patsy was a friend. I think she was a
6 friend of Mr. Smith's. After she and I broke up,
7 when they were on the Highway Commission -- they were
8 on the Highway Commission together and so forth.

9 Q Did Mr. Smith ever work for Governor
10 Clinton, do you know?

11 A I think he was on his staff once.

12 Q I am asking if you are aware.

13 A You know what, I think he was. He was out
14 there -- I guess he was working for him. I think he
15 supported him.

16 Q Did you ever have any discussions with
17 anyone in the governor's office with regard to state
18 bond underwritings?

19 A In the governor's office?

20 Q Yes, sir.

21 A No, not to my knowledge, I don't remember.

22 Q Did Ms. Thomasson?

- 1 A I don't know.
- 2 Q How about Mr. Lasater?
- 3 A I don't know that either.
- 4 Q Am I right; Mr. Lasater and Lasater &
5 Company owned a number of aircraft during the same
6 period, '83 through '86?
- 7 A Yes, they did own some aircraft.
- 8 Q Did you ever fly in those aircraft?
- 9 A Yes. Yes, I did.
- 10 Q Did you ever fly in the aircraft with
11 Governor Clinton?
- 12 A I don't recall ever doing that.
- 13 Q Did you ever fly with anyone from the
14 governor's staff in any of the aircraft?
- 15 A I don't recall doing that. I don't know
16 that I didn't. I just don't recall.
- 17 Q Have you ever heard that the governor used
18 or flew on Mr. Lasater's aircraft?
- 19 A I have heard that, yes. That could
20 possibly be true. He might have -- I wasn't there
21 with them. He might have used it to fly somewhere.
22 That was kind of customary at that time in Arkansas.
-

- 1 Q Could you elaborate on that? How is it
2 customary?
- 3 A Well, as I understood it, the governor
4 would call different people -- different people would
5 loan the governor airplanes. He didn't have his own
6 plane. People would loan him -- not only us, I am
7 sure; other people did too. But I don't know how
8 frequently it was, but from time to time. If he
9 would have called -- if he would have called -- I
10 think probably if the plane wasn't busy he probably
11 could have used it.
- 12 Q Can you approximate how many times you know
13 that the governor flew in the aircraft?
- 14 A I don't know that he ever flew in it. I
15 said it was customary back then. If he had called --
16 I don't know that he ever flew in it.
- 17 Q During the period 1982 through 1986, were
18 you aware that Mr. Lasater used cocaine?
- 19 A '82 to '86?
- 20 Q Yes, sir.
- 21 A Can I answer this -- yes, I was aware of
22 it. It was a matter of record. Yes.

1 Q Do you know whether -- did the governor
2 have any knowledge of Mr. Lasater's cocaine use?

3 A Not to my knowledge.

4 Q Did Ms. Thomasson?

5 A Did she know?

6 Q Yes, sir.

7 A Not to my knowledge.

8 Q Did anyone on the governor's staff?

9 A No.

10 Q Did Mr. Lasater ever contribute money to
11 any of Governor Clinton's campaigns or inaugurals?

12 A I felt like he did. I can't tell you
13 what. We supported him in that year at that time, I
14 am sure he gave contributions.

15 Q Were employees at the company encouraged to
16 contribute to any Clinton campaign or inaugurals?

17 A I think that if he was supporting them, we
18 encouraged them to support, yes, make contributions.

19 Q Were any employees ever reimbursed for
20 contributions they made to any campaigns or
21 inaugurals?

22 A I don't know. I don't know about anything

1 like that.

2 Q Have you ever heard that happened?

3 A I don't -- first I have heard of that. I
4 wasn't.

5 Q That you would know?

6 A I would know that.

7 Q Okay. Did Mr. Lasater or Lasater & Company
8 ever sponsor a fundraiser for Governor Clinton?

9 A I don't know the place, there is a place on
10 the east end -- there is a historical building here
11 where they have weddings and receptions, et cetera,
12 and I can't think of the name of it. And I think we
13 sponsored one party done there, a little cocktail
14 party deal to raise funds for Mr. Clinton.

15 Q Was that at Trapnall Hall?

16 A Trapnall Hall, that's it. You know more
17 about it than I do. Trapnall Hall. That's it,
18 Trapnall Hall. And we invited people and friends,
19 what have you, and raised some money for Mr. Clinton
20 at that gathering.

21 Q Do you recall what period that occurred?

22 A I sure don't. I don't have any idea.

1 Q Do you recall if it was after he had been
2 re-elected, after being out of office for a term?

3 A It would have been then. It would have
4 been from then on. I don't know when it was, but I
5 guess it would be during that time he was running
6 against Frank White.

7 Q Do you have any recollection whether it was
8 in October of 1984?

9 A No. No.

10 Q Do you recall what time of year it was?

11 A I really don't know that either.

12 Q How many people attended the fundraiser?

13 A I really don't know that. Probably 75, a
14 hundred, I would say, maybe.

15 Q Who was responsible for organizing it?

16 A I don't know who organized it. I don't
17 have any idea who did that. Probably somebody in our
18 firm but I don't know who it was. I didn't.

19 Q Do you have any knowledge of how much money
20 was raised during that fundraiser?

21 A I don't have any idea.

22 Q Did Mr. Clinton come by the fundraiser?

1 A I believe he came by for a short time.

2 Q Did you speak with him?

3 A I can't remember. We usually spoke when we
4 were at gatherings like that. He's pretty good about
5 speaking to everybody there. I am sure he spoke to
6 me sometime during his rounds.

7 Q But you don't have a specific recollection
8 of any conversation you had with him?

9 A No. It wasn't long, just shake my hand or
10 something.

11 Q Would you say he was there for a half-hour
12 or less than a half-hour?

13 A I don't have any idea, really.

14 MR. O'CALLAGHAN: We have to go off the
15 record for a quick moment for the court reporter to
16 attend to her machine.

17 (Discussion off the record.)

18 MR. O'CALLAGHAN: Why don't we go back on
19 the record.

20 THE WITNESS: Okay, we are back on the
21 record.

22 BY MR. O'CALLAGHAN:

1 Q Are you familiar with a bond underwriting
2 that was undertaken in 1985 by the state police to
3 provide capital for the purchase of a new police
4 radio system?

5 A In general I am, yes.

6 Q And how are you familiar with that?

7 A We were -- this is what I know about it.
8 We had some problems here in the state, we had some
9 state troopers that had been killed because the
10 communications were bad and they couldn't call the
11 backup help, and et cetera, two or three pretty bad
12 killings. And there was a big move on to modernize
13 our radio system, whatever you want to call it, for
14 the state police, to stay in better touch with each
15 other and so forth.

16 And so they came up with a proposal, the
17 state police did, the communication system was going
18 to cost so much money, and of course, the state
19 didn't have that. The idea came up, some kind of a
20 bond issue to raise the money, and the number 26, \$27
21 million comes to my mind at this time.

22 And the State Police Commission, I guess,

1 agreed to have this bond issue and they advertised
2 for bids from different bond houses -- us being one
3 of them -- to submit bids on this bond proposal.

4 Well, as I remember, we got -- at that time
5 there was a company called E.F. Hutton, you guys
6 remember when they were pretty big, one of the big
7 guys. They were pretty active in the state. We had
8 done some work for them. We had E.F. Hutton and they
9 kind of headed it up. And there was another company
10 called T.J. Raney at that time which was a pretty old
11 firm here in town. The three of us went together for
12 a joint bid, headed up by E.F. Hutton, them being the
13 strongest ones.

14 And I remember we submitted a bid to the
15 State Police Commission, and -- for the contract.
16 There was a vote on it. Police Commission strictly
17 on top of the table, aboveboard, wide open, they
18 award it to E.F. Hutton & Associates, and we being
19 one of the associates. And that's what I remember
20 about it.

21 Q I would like to ask you a couple more
22 specific questions --

1 A Sure.

2 Q -- as I am sure you anticipated.

3 How did the group of E.F. Hutton, T.J.

4 Raney and Lasater & Company, how was that brought
5 together? How did those three groups get together?

6 A Seemed like we had probably done some work,
7 you know, with E.F. Hutton on some other things and
8 got to be -- well, I will give you a little
9 background.

10 Before this, I am talking about New York,
11 the bond houses in New York was coming into Arkansas,
12 and the Stephens group was so strong, if you didn't
13 have the Stephens group with you, you didn't do much
14 business down here. You didn't get in the front door
15 very far without the Stephens group helping out the
16 situation, very strong politically and financially.

17 And we were kind of the new kids on the
18 block, you might say. And in fact, we invited
19 Stephens to join with us, in the deal, come in with a
20 bid. Hell, no, we are not going to deal with you
21 guys. They came with a separate bid on their own.
22 And that's about what I remember.

60

1 See, like Michael Drake had a contact with
2 E.F. Hutton and they had done some business. Like I
3 said, we had done some other things with them and had
4 a relationship at that point in time.

5 Q Do you know who approached Stephens about
6 doing the underwriting?

7 A It is my understanding Dan talked to
8 Jackson Stephens, or somebody, and Jackson refused to
9 deal. He said no, I don't want to be involved. I
10 can do it on my own. And he got pretty pissed off
11 that we got awarded the contract. I remember that.
12 I think he went and talked to the governor about it.
13 I heard he did.

14 I am going to tell you this is hearsay,
15 good hearsay, but he was a little pissed off about
16 the bid.

17 Q Do you know whose idea it was for the firm
18 to get involved --

19 A Probably Michael Drake's, I guess. He was
20 helping that deal. He would be the one spearheaded
21 it and put the group together. He was our contact
22 guy with the Raney people and with the Hutton

1 people.

2 MR. FEUER: Mr. Locke, so the record is
3 clear, who went and spoke to the governor about the
4 deal? Was it Jackson Stephens that spoke to the
5 governor that you heard?

6 THE WITNESS: Well, my story was that we
7 were awarded the contract, or our group was awarded
8 the contract, and Jackson was really pissed off about
9 it, and he even made a contact and went to see the
10 governor and expressed his displeasure. That's
11 strictly hearsay, guys. I heard it pretty good.

12 And I don't know what the vote was -- I
13 think the thing had to be -- at that time I wasn't
14 with the legislature, but I think it had been
15 approved by legislative committee also, besides the
16 state commission. It seems like it had a double
17 whammy, had to be approved by two groups. So the bid
18 was approved by two groups, scrutinized it and
19 decided we had the best bid, the cheapest bid, or our
20 group did.

21 You know, it was wide open out there.
22 There wasn't any big secrets about it.

1 BY MR. O'CALLAGHAN:

2 Q Did -- you were executive management during
3 this time period; is that correct?

4 A Yes, I would guess you would call me in
5 management at that time.

6 Q Did management -- did there come a time
7 when the management had an initial meeting about
8 getting involved in this underwriting?

9 A I don't remember any initial meeting we
10 had.

11 Q Any discussions?

12 A Maybe it was discussed, probably discussed
13 it.

14 Q Do you recall whether -- how far in advance
15 of when you actually received the contract?

16 A I really don't know what the time schedule
17 was.

18 Q Do you recall when the firms first started
19 to work to try to compete for the contract, when it
20 was first announced that the state police were
21 looking for a new system, or do you recall, was it
22 shortly after the funeral for the state trooper when

1 the efforts started to begin to get involved in this?

2 A I don't remember when that was. I don't
3 know what triggered it. Those circumstances that had
4 been happening, there had been a couple of troopers
5 been killed, and that kind of put the state police --
6 they needed this communication system.

7 Q During the time when you-all were first
8 gearing up to put together, to try to compete or get
9 involved in the underwriting or potential
10 underwriting for the new system, did Mr. Lasater
11 mention to you that he had a conversation with the
12 governor about getting involved in that underwriting?

13 A No, he didn't say anything to me about it.

14 Q Are you aware of any conversation he had
15 about it, any interest that Mr. Lasater expressed in
16 being part of the underwriting, or any conversation
17 that the governor had with Mr. Lasater about it?

18 A I don't remember anything. I wasn't
19 involved.

20 Q And Mr. Drake was the person primarily
21 responsible for putting this project together?

22 A Yes. If I remember right, it was his

1 project.

2 Q Did there come a time when the firm hired a
3 law firm to help them with the legislation?

4 A With legislation?

5 Q For legislation to authorize the
6 underwriting.

7 A I don't remember that.

8 Q You don't recall whether they hired the
9 Mitchell, Williams firm to do work like that?

10 A Which firm?

11 Q Mitchell, Williams.

12 A Mitchell, Williams? No, I don't recall
13 that. That wasn't part of my situation here.

14 Q Okay. Did you have any contact with Sam
15 Bratton in the governor's office at any time?

16 A Sam who?

17 Q Sam Bratton.

18 A Not really.

19 Q Did you have any contact with him?

20 A No, I don't remember having any contact
21 with Sam Bratton.

22 Q Do you know who he is?

1 A I know who he was. I know the name. If he
2 is who I think he is. Is he a crippled guy? I can't
3 remember who Sam Bratton is. I remember the name in
4 politics but I don't know him.

5 Q But you don't personally know him?

6 A I really don't know him, no.

7 Q Do you know if he did any work with anyone
8 at the firm with regard to this project?

9 A I don't know.

10 Q Did the company put together a presentation
11 with E.F. Hutton that the governor attended in
12 January of 1985?

13 A Repeat that again, please.

14 Q Sure. Was Lasater & Company involved in a
15 presentation made to the governor in January 1985?

16 A To the governor? Or to the committee?

17 Q Just in general, to the state and -- about
18 financing for the state in general.

19 A I don't remember. I wasn't involved. I
20 don't know.

21 Q So you never attended a meeting at the
22 Legacy Hotel that the governor attended?

1 A Not to my knowledge, I don't remember.

2 Q Do you know if Mr. Drake had a point of
3 contact in the governor's office, someone he dealt
4 with there at the office?

5 A I don't know that he did.

6 Q You are aware of the firm's efforts to
7 become an underwriter on the state police radio
8 financing; is that correct?

9 A Yes, I knew we made an effort, yes.

10 Q Were you given any kind of updates with
11 regard to the progress of the firm's efforts, or the
12 progress of the process?

13 A No, not too much. I just remember it was
14 going on and on, and we were involved.

15 Q Are you familiar with anyone who served on
16 the State Police Commission at that time?

17 A I think Winthrop Rockefeller, Jr., not his
18 dad but the boy. I think he was at that time. There
19 was a gentleman named Johnny Mitchum on it. That's
20 the only two names that I can recall that might have
21 been on it at that time.

22 Q Were you familiar with anyone by the name

1 of Simpson?

2 A Simpson, I have heard that name, yes. I
3 don't know him.

4 Q How do you know Johnny Mitchum?

5 A He is a real estate guy here in town, and
6 his brother was on the -- his brother and I served in
7 the legislature together, Tommy Mitchum. And I met
8 him through Tommy on different occasions.

9 Q Did you have any discussions with him with
10 regard to this underwriting?

11 A No.

12 Q Did you have any discussions with anyone on
13 the state commission with regard to the underwriting?

14 A No.

15 Q Did anyone at the firm contact anyone at
16 the State Police Commission with regard to the
17 underwriting?

18 A I don't know.

19 Q Do you know if Mr. Drake knew Johnny
20 Simpson?

21 A Do I know if he knew him?

22 Q Yes, sir.

1 A I don't know if he knew him. But I assume
2 that he knew some people because he was working with
3 them, but I don't know that he knew Mr. Simpson.

4 Q Did you know Mr. Mitchum socially at all?

5 A No.

6 Q I have a document here, it is a two-page
7 document. It is on Lasater & Company letterhead,
8 dated February 15, 1985. It is addressed to the
9 "Honorable Bill Clinton" and it reads "Dear
10 Governor," and it is signed Dan R. Lasater. And a
11 second signature line has Rick L. Knox on it.

12 A What's the name?

13 Q Rick Knox.

14 A Yes, Rick Knox, he was president of the
15 company at one time.

16 Q This letter identifies him as president,
17 and it is dated February 15 --

18 A He was at one time.

19 Q February 15, 1985?

20 A Yes.

21 Q The first paragraph of the letter reads
22 "thank you very much for the opportunity to sit down

1 and visit with you regarding the many issues facing
2 Arkansas and relative to areas in which Lasater &
3 Company can assist you in efforts to promote and
4 develop Arkansas."

5 Do you have any knowledge of any meeting
6 that Mr. Lasater had with the governor in and around
7 February 15, 1985?

8 A I really don't. I am not saying there
9 wasn't one. I just don't remember one of them. Is
10 he referring to a meeting with Mr. Knox?

11 Q It is actually -- it is not clear from the
12 letter. That's what I am asking.

13 A I really don't know.

14 Q Okay. Are you familiar with a gentleman by
15 the name of Donald Spears or Donny Spears?

16 A Donny Spears, lawyer, banker? From
17 Malvern? Do you know anything more about him? That
18 name rings a bell.

19 Q But you are not familiar with him?

20 A I can't think -- I have heard the name. I
21 am not sure I know him.

22 Q During the time that the commission was

1 getting ready to choose an underwriter to do the
2 police radio financing, at that time did you ever
3 become aware that there was a concern that the group
4 of underwriters associated with Lasater & Company,
5 that there was a rumor circulating that the bid they
6 were submitting was lower than the price that they
7 could deliver on the deal?

8 A No, I wasn't aware of that. What was
9 that? The proposal we were submitting was lower than
10 we could deliver?

11 Q Yes, sir.

12 A No, I wasn't aware of that. Did that
13 happen?

14 Q Unfortunately, part of these depositions --
15 MR. FEUER: Mr. Locke, I don't mind telling
16 you, for my part, there is no evidence that that
17 happened.

18 THE WITNESS: It doesn't make any sense,
19 but no, I am not aware of that. It sounded like sour
20 grapes to me, but --

21 BY MR. O'CALLAGHAN:

22 Q Are you familiar with a gentleman by the

1 name of Knox Nelson?

2 A Yes.

3 Q During this period of time, in 1985, did
4 you know Mr. Nelson?

5 A '85? Yes, I knew Mr. Nelson.

6 Q I believe he was a Senator then?

7 A Yes, he was a Senator.

8 Q And what was the nature of your
9 relationship with Mr. Nelson?

10 A The nature of my relationship with him?

11 Q Yes.

12 A I served with him, you know, 12 years in
13 the Arkansas Senate, during that period of time.

14 From '71 to '83, I was associated with him at the
15 Arkansas Senate, as a state senator.

16 Q Did you ever hear during that time period
17 that he was opposed to financing the police radio
18 system through a bond underwriting?

19 A I don't remember that.

20 Q Did you have any conversations with him
21 during this time period?

22 A No, I didn't contact him. I don't remember

1 him being opposed to it. I guess -- I don't know
2 whether he was or wasn't.

3 Q Do you know whether anyone at Lasater &
4 Company had any conversations with him?

5 A No, I do not.

6 Q Did there come a time at the firm where you
7 became concerned that the bond underwriting wouldn't
8 happen?

9 A That I became concerned about it?

10 Q Yes, sir.

11 A I did not.

12 Q Was there ever a concern expressed by
13 Mr. Drake or anyone else at the firm?

14 A Not to my knowledge.

15 Q I guess in a couple of newspaper reports
16 and other sources, I believe there's been a comment
17 attributed to you which I would like to bring up
18 here. And I am going to refer to the 302 which I
19 referred to earlier, and I am referring to the
20 seventh page.

21 And the second paragraph of that page,
22 which is, again, as Mr. Feuer already said, it is

1 notes of an agent who interviewed you. It reads,
2 attributing remarks to you, "said there was
3 considerable lobbying done for the contract, but
4 Mr. Locke said he felt because Lasater & Company
5 backed the right individual in Governor Clinton.
6 Lasater & Company received the contract."

7 A That's wrong. I told them it was wrong at
8 the time they printed it. I think it came out in the
9 L.A. Times. They came to see me, they had their
10 story written. I told them it was wrong. They still
11 wrote it. That's a false statement. I never said
12 that.

13 Q You don't recall making that statement?

14 A No. If I did, it was wrong. I didn't make
15 the statement. It was totally wrong.

16 Q Do you recall being asked about the state
17 police underwriting contract during your FBI
18 interview?

19 A I really don't even recall being asked
20 about it. I know that statement there is wrong.

21 Q Did you say you told the agent -- did you
22 get a chance to review this after it was written?

1 A I haven't seen it. All I know, it got
2 written up in the paper one time.

3 Q So the first time you had knowledge of it
4 was 1992?

5 A When they wrote it up in the -- I think it
6 was an L.A. paper somebody wrote it up.

7 Q L.A. Times article?

8 A Yes.

9 Q When you said you told someone that it
10 wasn't -- you didn't say that, you told the reporter
11 that; is that right?

12 A Yes. The reporter caught me one day here
13 in town, and walked in my office. And I knew they
14 had been looking for me. I wasn't trying -- didn't
15 feel like talking to them. They were all over here
16 like flies. Came in and said we have this story and
17 we want to confirm. And I said what story? He read
18 it right here. I said that's wrong. I said if you
19 put the statement in the paper -- I will give you a
20 statement.

21 My statement was -- if you want a correct
22 statement, I will give you a statement, and I gave

1 him a statement which they didn't print. They
2 already had their story written. They made a
3 courtesy call on me. I guess they already had their
4 story written when they got to me. That came out in
5 the paper and I heard about that several times but
6 that's a wrong, bad statement. I did not make that
7 statement. That's not true.

8 Q You said something about -- you made a
9 reference to Governor Clinton when you talked to the
10 reporter, I don't think that was covered by the court
11 reporter.

12 A Say what now? Oh, yes, I told him that --
13 if I personally disliked Mr. Clinton, if I hated him,
14 I couldn't tell you anything bad about him, because I
15 don't know anything bad about Mr. Clinton. Of course
16 they chose not to write that.

17 MR. FEUER: Funny how that works, isn't
18 it?

19 THE WITNESS: Funny how that works. In
20 fact, I told them -- I don't want to put this in the
21 record -- I was pretty profound with them.

22 BY MR. O'CALLAGHAN:

1 Q And it is a public record or it will become
2 a public record after the hearings.

3 A Yes, after what I say here, so I'd just as
4 soon not say what I was going to say. It wouldn't
5 serve any purpose. Except the fact that I don't know
6 anything about Mr. Clinton. If you called me up from
7 the National Enquirer, I couldn't give you any secret
8 stories down here.

9 Q There is another entry here in the 302
10 which I want to read to you, and ask you if you
11 recall making a similar statement.

12 A Okay.

13 Q Again, it is on the seventh page. The
14 first paragraph on that page reads "Michael Drake was
15 very instrumental in working out the legislative
16 problems surrounding the bill and additional
17 amendments. Drake worked very closely with Johnny
18 Simpson, Arkansas State Police Commissioner, and they
19 eventually formed a consulting partnership after
20 Drake left Lasater & Company." Do you recall making
21 that statement?

22 A I don't recall making that statement. I

1 don't know this Johnny Simpson you are talking about.

2 Q So you don't recall anything of that
3 nature?

4 A Would you read that statement again. I
5 didn't hear all the statement.

6 Q I would be happy to.

7 A Yes.

8 Q It reads "Michael Drake was very
9 instrumental in working out the legislative problems
10 surrounding the bill and additional amendments.
11 Drake worked very closely with Johnny Simpson,
12 Arkansas State Police Commissioner, and they
13 eventually formed a consultant partnership after
14 Drake left Lasater & Company."

15 A I don't remember making that statement.

16 Q Okay. There was one more statement I
17 wanted to -- I want to bring to your attention, an
18 entry in this 302, which reads "Mr. Locke stated he
19 was aware Dan Lasater had given Tommy Mitchum \$500 in
20 the past for past campaign debts, but this had no
21 influence at the time of the communication of the
22 bond issue."

1 Then it reads "however, Tommy Mitchum is
2 the brother of Johnny Mitchum, a member of the
3 Arkansas State Police Commission."

4 A Are you asking me a question?

5 Q The question is, do you recall making that
6 statement?

7 A Not that exact statement, but that is
8 true.

9 Q How did you come to know that?

10 A How did I know that Tommy -- he gave Tommy
11 \$500?

12 Q Yes, sir.

13 A Tommy knew me from the legislature. It was
14 probably after I was already out and Tommy came by
15 the office to see me one day and said he was running
16 for representative and wanted to know if I thought I
17 could give him a contribution. And he wanted to know
18 if I could round him up a little contribution.

19 He had political debts he had and he wanted
20 to run for re-election, which is not uncommon.
21 Everybody came by. We were hit up all the time for
22 political contributions. But Tommy came by, knowing

1 me, he didn't know Dan, and wanted to know if I could
2 get together some money for him. I said I don't know
3 Tommy, stay here in the office and I will see what I
4 can do.

5 So he sat in my office, I went upstairs to
6 Dan's office, and I said Dan, there is a friend of
7 mine downstairs running for representative, and he
8 needs -- he would like a contribution. And if you
9 have a minute, I would like you to meet the guy.

10 So I remember Dan came downstairs and they
11 shook hands and talked about three minutes, two
12 minutes, and Dan turned to me and says, you know,
13 give him a check for \$500, or something of that
14 nature. And we gave him \$500.

15 Q And when did that take place?

16 A I don't know when it was. I can't give you
17 a date on it.

18 Q Do you recall whether it was in and around
19 the time the company --

20 A I really don't know. I really don't know.

21 Q Mr. Locke, did you hear at any point near
22 the time the state police underwriting contract was

80

1 awarded to Lasater & Company by the State Police
2 Commission --

3 A Remember, you are saying that wrong, and
4 just for clarification, it was actually given to E.F.
5 Hutton and Lasater & Company and T.J. Raney company.

6 Q Sorry. The group which included Lasater &
7 Company?

8 A Right.

9 Q My apologies.

10 A I don't know why you focus on us but go
11 ahead. Yes.

12 Q The question is actually regarding E.F.
13 Hutton. Was there ever any discussion about E.F.
14 Hutton pulling out of the deal?

15 A Not to my knowledge.

16 Q Do you recall there being -- E.F. Hutton
17 experienced legal problems around this time period?

18 A I remember right after that they started
19 having problems, I remember. Shortly -- during the
20 time or shortly after it, they had some problems, I
21 remember that. I think they finally -- whatever
22 happened to them? They went off the scene.

1 Q What do you mean, "they went off the
2 scene"?

3 A Well, they ceased to exist. I don't think
4 they are around anymore.

5 Q Okay.

6 A I don't know exactly what happened to
7 them. But I remember they weren't around.

8 Q Did anyone at Lasater & Company ever offer
9 to provide money or other types of remuneration to
10 Governor Clinton in connection to receiving the
11 contract for the police radio bond underwriting?

12 A No. Not to my knowledge.

13 Q Did anyone provide money to Governor
14 Clinton or remuneration to Governor Clinton in
15 connection with receiving the state --

16 A Not to my knowledge.

17 Q -- police bond underwriting?

18 A Not to my knowledge.

19 Q Did you have any involvement in the -- let
20 me ask one more question with regard to that
21 subject.

22 Are you aware whether anyone from the

1 governor's office exercised -- or rather, anyone from
2 the governor's office ever communicated to the State
3 Police Commission that they had a preference for one
4 underwriter over the other with regard to this
5 contract?

6 A Not to my knowledge.

7 Q Do you know whether anyone from the
8 governor's office related to anyone at the State
9 Police Commission that they would like to see Lasater
10 & Company be included in the group receiving the
11 underwriting contract?

12 A Not to my knowledge.

13 Q Did anyone from Lasater & Company provide,
14 other than campaign contributions, which were
15 recorded, did anyone from Lasater & Company ever
16 provide Governor Clinton with any cash?

17 A Not that I know of.

18 Q While you were at Lasater & Company, did
19 Governor Clinton ever come by the office to visit?

20 A You asked me that. He came by one time for
21 a short period of time.

22 Q When he came to speak to the staff when he

1 was running for office?

2 A When he spoke with the staff.

3 Q After he got in office, do you recall
4 him -- or rather, did he ever come by to visit either
5 you, Mr. Collins or Mr. Lasater?

6 A I don't remember. I don't -- I don't
7 remember if he did.

8 Q Have you ever heard that he did?

9 A No, I haven't heard that he did.

10 Q Did you have any participation in the
11 company's efforts to receive underwriting contracts
12 with the Arkansas Housing Investment Agency, or its
13 successor, the Arkansas Development Finance
14 Authority?

15 A No.

16 Q Whose responsibility was that at the firm?

17 A That would have been Drake's, too, I guess,
18 Michael Drake. I assume, I am not sure of that, but
19 I assume it would have been his.

20 Q Do you have any knowledge of whether anyone
21 from the governor's office expressed to anyone at
22 AHDA or ADFA that Lasater & Company should be

84

1 included in underwritings done by that agency --

2 A Not to my knowledge.

3 Q -- or rather, bond offerings --

4 A No.

5 Q -- issued by that agency?

6 Are you familiar with anyone by the name of
7 George Wright?

8 A George Wright?

9 Q Yes, sir.

10 A No, I don't recall a George Wright.

11 Q How about Mort Hardwicke?

12 A Who?

13 Q Mort Hardwicke.

14 A No, that name doesn't ring a bell.

15 Q How about Wooten Epes?

16 A I have heard of Wooten Epes.

17 Q Where did you hear his name?

18 A He work for the governor in some capacity.

19 Q Do you personally know Mr. Epes?

20 A I really don't know him, not personally,

21 no.

22 Q Did anyone at the firm know him?

1 A I don't know.
2 Q Do you know if Mr. Epes ever came by the
3 offices?
4 A Not to my knowledge.
5 Q Do you know if any board members from ADFA
6 or AHDA ever visited the offices of Collins, Locke &
7 Lasater?
8 A Not to my knowledge.
9 Q Do you know if any of the members of that
10 board ever travel on Collins, Locke & Lasater or
11 Lasater & Company airplanes or jets?
12 A Who was on the board? Is that the guys --
13 Q Just if you have --
14 A I don't know of anybody. I don't know.
15 Q I should be wrapping up pretty soon. I
16 want to make sure I don't have to come back to
17 things, saying I am going to be finished. If you
18 could bear with me for one moment.
19 A Okay.
20 (Pause.)
21 Q Are you aware whether Madison Guaranty
22 Savings & Loan maintained any accounts at Lasater &

1 Company?
2 A I wasn't aware of it.
3 Q Are you familiar with Madison Guaranty
4 Savings & Loan?
5 A In the paper every day down here.
6 Q At the time?
7 A At the time? No, I wasn't really that
8 familiar with them.
9 Q Do you know a Jim McDougal?
10 A I do know Jim McDougal.
11 Q Did you know him at the time?
12 A Yes, I knew Jim. Not intimately. He had
13 worked on one of the governor's staffs whenever I was
14 out in the Senate, I don't know which one, I had some
15 contact with him then -- I had some contact with him
16 when he was on one of the governor's staffs; sometime
17 when he was in the Senate, he worked for one of the
18 governors. I don't know if it was prior, or who it
19 was.
20 But I met him and knew him then, in a
21 professional way, and I never was involved with him
22 socially in any way.

1 Q Do you know Susan McDougal as well?

2 A Not really, no.

3 Q Did you have any business dealings with the
4 McDougals while you were at Lasater & Company?

5 A Thank God, no.

6 Q Did anyone else at Lasater & Company do any
7 business with the McDougals or Madison Guaranty
8 Savings & Loan that you know of?

9 A Not to my knowledge.

10 Q Did you have any involvement -- I will
11 withdraw that.

12 I would like to refer you again to the
13 meeting that you, Mr. Collins, and Mr. Lasater had
14 with Bill Clinton. I think you put it in around the
15 fall of 1979.

16 A I am not sure Mr. Collins was there. I
17 remember being there and I remember Dan was there,
18 and I was there and Bill was there, and I don't know
19 whether David was there or not. He would have to
20 tell you that, I don't know whether he was or he
21 wasn't. I think that other people were there but I
22 can't tell you who they were.

1 Go ahead. I know the meeting you are
2 talking about.

3 Q Since that meeting, have you had any
4 conversations with Mr. Lasater about that meeting?

5 A Since that meeting?

6 Q Yes, sir.

7 A No, I don't recall talking to him about
8 it.

9 Q During that meeting, I believe you stated
10 that, during the meeting, the governor asked if --
11 was inquiring as to whether Mr. Lasater and you-all
12 would support him if he ran for office?

13 A That was the purpose of the meeting, to get
14 to meet Mr. Lasater, and to ask our advice, what he
15 had done wrong, what he should do, talk about the
16 state, told what his dreams were for the state of
17 Arkansas, and what his ambitions were for developing
18 the state and so forth.

19 And that was kind of our ambition, too,
20 because we were big Arkansans because we were trying
21 to do something good here. And that was primarily
22 the theme of the meeting that I remember, what he

1 would like to do, and hear his ideas and see if we
2 agreed with them.

3 Q Did he talk about any ideas he had for
4 boosting business for financial firms in Arkansas?

5 A He didn't talk about -- I imagine he just
6 talked about boosting Arkansas as a whole.

7 Q Did he discuss -- any discussion of what he
8 wanted to do with the Arkansas Housing Development
9 Agency if he was re-elected?

10 A I don't remember anything about that
11 specific thing.

12 Q You don't recall any conversation at all
13 with regard to the securities business?

14 A Not really. Not at that meeting. I don't
15 recall any specific thing there.

16 Q Would that have been a topic of discussion
17 that both you and Mr. Lasater would have been
18 interested in talking about with regard to
19 development of the state?

20 A Yes, we would have been interested in
21 talking about the state development. We hadn't been
22 in the business very long at that time, if I

90

1 remember, but we were interested in Arkansas growth
2 and so forth.

3 Q I am interested in whether or not he was
4 relating to you policies that he thought you would be
5 interested in, and it would help your business,
6 during the course of the meeting, as a means to gain
7 your support for his candidacy?

8 A I don't think there were any specific
9 things that could help our business -- I don't think
10 there was anything he said specifically about our
11 business. He was talking about the state as a whole
12 and how he wanted to develop it.

13 Q Just so we are clear, you don't recall any
14 conversation he had about developing the securities
15 business?

16 A I really don't. Not specifically.

17 Q Do you recall anything he said during the
18 meeting about plans he had for the state that drew
19 your attention, something that you thought was a good
20 idea or were excited about?

21 A No, I really don't.

22 Q You said it was a two-hour meeting?

1 A I would say it was about two hours. I
2 think it was 5:00 till about 7:00, something like
3 that.

4 Q You don't have recollection of any
5 substance of the meeting --

6 A Not really. The only thing I remember is
7 him having to call home to Hillary four or five
8 times.

9 MR. O'CALLAGHAN: Off the record.
10 (Discussion off the record.)

11 MR. O'CALLAGHAN: Back on the record.

12 BY MR. O'CALLAGHAN:

13 Q During the time you were -- when the firm
14 was Collins, Locke & Lasater, where was the firm
15 located?

16 A We had about -- let me think, about two or
17 three locations. I believe we started out at First
18 National at that time, First National Bank building.
19 And I believe our second was at that time either --
20 no, was it Savers or First Federal Savings & Loan,
21 the savings and loan across the street. And then the
22 third and last move, as I recall, around '81,

92

1 somewhere in there, was to the building that we ended
2 up in, that was at 310 Louisiana.

3 Q So by the time Governor Clinton was
4 re-elected, you were in the 310 Louisiana building?

5 A I think we were.

6 Q Where was your office located physically
7 with regard to Mr. Lasater's office during the time
8 period 1982 through 1986?

9 A Let's see. It changed. We made one
10 change -- whenever Mr. Collins and Mr. Lasater and I
11 were there together -- I am talking about in the
12 final destination -- I can't remember where we were
13 in the early, first two buildings because -- I don't
14 remember.

15 Q I just need to -- I am curious about the
16 310 Louisiana.

17 A 310, I remember 310 Louisiana.

18 Q Okay.

19 A We had a big sales floor out front and
20 offices off the side of that, off the hall. And if I
21 recall, Dan had the first office on the left coming
22 down the left hall, I would I had a middle office,

1 and Mr. Collins had the end office at the end, toward
2 the end of the building.

3 Q All three of you were in a row down the
4 hallway?

5 A Three in a row. And then later, when it
6 became Lasater & Company, Dan officially moved his
7 office -- we had an upstairs kind of a -- little
8 annex. He moved up off the sales floor and upstairs
9 and I took his office on the end, where he was. We
10 had some vice president sit in the other office, and
11 so forth.

12 Q When you were in that second office, were
13 you able to see people coming in and out of the
14 offices?

15 A Well, we had a big -- have you ever seen
16 the building?

17 Q No, sir, I haven't.

18 A We had a big -- we had a big vestibule, you
19 would call it, or lobby, you call it, not big -- we
20 had a receptionist sitting back there and she would
21 buzz back. And she would sit them down out there and
22 direct them to where they was to go. I saw most of

1 people coming and going, I guess.

2 Q If the governor came to visit the office,
3 would he have been brought by your office to say
4 hello or would he have stopped by?

5 A I hope to hell if the governor came by
6 someone would let us know he was there. I feel like
7 I would be made aware that he is in there. It
8 would -- he wasn't the type of guy to drop by every
9 day for coffee. It would be a rare occasion if he
10 came by there.

11 MR. O'CALLAGHAN: Thank you very much. I
12 have no further questions at this time.

13 THE WITNESS: You bet.

14 EXAMINATION

15 BY MR. FEUER:

16 Q Mr. Locke, the procedures that we have been
17 using in the course of this investigation are the
18 Republicans ask questions first and the Democrats ask
19 questions second. And because of that there is a
20 certain amount of repetition --

21 A Right.

22 Q -- that's inherent in this, but I will be

1 brief and I apologize for that in advance.

2 A No problem.

3 Q When you introduced Governor Clinton to
4 Mr. Lasater for the first time, was that shortly
5 after he had been defeated for re-election?

6 A You know, if I recollect it right, you
7 know, sometimes you forget, I remember -- if I am not
8 mistaken, I was contacted either the day after, or
9 just a very short time after the election, like in
10 November. I know because I was shocked that he was
11 back on the -- he was thinking about running for
12 office, because he just -- had a very disappointing
13 defeat. I know I would have gone up and sucked up in
14 the corner somewhere and licked my wounds, but that
15 wasn't the case.

16 And I want to say it was -- I know it was
17 shortly after his defeat. Shortly after. It could
18 have been the next day.

19 Q Was Governor Clinton in much of a position
20 to do favors for people at that time?

21 A At the latter part of this deal, no.

22 Q At the time that he met with you and

1 Mr. Lasater?

2 A No, no. He -- he was like a crippled
3 duck. Fourth, fifth or sixth somewhere in there, and
4 the new governor took office in January, so he would
5 not be in a strong position at all. I wouldn't
6 think.

7 Q Did you get the feeling that Governor
8 Clinton was talking to other people in Arkansas about
9 the subjects he was discussing with you and Lasater?

10 A Definitely. He was almost full-time doing
11 this. Later it came out we were one of the first
12 people. But he started out immediately going all
13 over the state meeting with groups of people. First
14 I think he was in an apologetic mood and a little bit
15 better the first time, then getting off base and
16 letting his people handle things he should have
17 handled, and asked for suggestions how he might
18 correct his errors, and asked for forgiveness, so to
19 speak, and asked for our support.

20 He made a thorough -- we were not the only
21 ones he talked to, believe me. He was making a
22 pretty general run of the whole state.

1 Q Had Stephens, Inc. supported Frank White in
2 the election against Bill Clinton in 1980?

3 A Yes.

4 Q When Bill Clinton regained the governor's
5 office in 1982, and became governor again in 1983 --

6 A '83, right.

7 Q -- did the state of Arkansas, from that
8 point on, use a larger number of underwriting firms
9 for state bond business than had the administration
10 of Frank White?

11 A Yes. It opened up things quite a bit. In
12 fact, Mr. White went to work for Stephens, Inc. after
13 he was defeated.

14 Q Did the Clinton administration have a
15 policy of including local firms in state underwriting
16 business?

17 A Yes, yes. What Bill wanted to do was be
18 more inclusive of everybody. He wanted everybody
19 that was available -- you had to have a certain, you
20 know, financial statement, et cetera, you know, to
21 qualify even to bid on the bonds. But any firm that
22 was qualified and was in the state of Arkansas, he

98

1 wanted them to have an opportunity to be it.

2 Q And was that true regardless of which
3 political candidates the firms had supported?

4 A I don't think that made a lot of
5 difference. I really think he wanted people in
6 Arkansas -- there were other firms besides us; we
7 didn't get all of it. We got a small percentage of
8 them. But up until that point, it had been kind
9 of -- a kind of closed shop here, bidding on state
10 stuff. Like I say, Stephens wasn't involved, you
11 didn't have very good luck.

12 Q Did Stephens, Inc. continue to get a share
13 of bond business even after Bill Clinton defeated
14 Frank White in 1982?

15 A I think they got their share. I can't tell
16 you how many but I think Stephens got -- Bill didn't
17 give what I call a black ball. I think every
18 contract out there was looked at with very honest,
19 open, whoever had the best bid on that particular
20 issue.

21 Q As far as you know, were the policies that
22 I just asked you about carried out by the Arkansas

1 Housing Development Agency and the Arkansas
2 Development Finance Authority?

3 A Repeat what you just said. I wasn't sure I
4 heard you right. Would you repeat that again,
5 please?

6 Q Sure. As far as you know, did the Arkansas
7 Housing Development agency and the Arkansas
8 Development Finance Authority have their -- have a
9 different set of policies with respect to hiring
10 underwriters, or did they follow the policies of the
11 Clinton administration that we have just discussed?

12 A Yes, I think they were just open -- I think
13 they were open just like the other one was. You
14 know, being -- inclusive of everybody. Whoever was
15 available to bid, bid. The more the merrier is the
16 way they looked at it. I don't think there was any
17 select group they gave anything to because they
18 couldn't have very well, it was too closely
19 scrutinized. It wasn't behind doors out there, it
20 was a wide open situation.

21 Q Mr. Locke, do you have any reason to think
22 that the Arkansas State Police Commission awarded the

100

1 bond underwriting contract to the Raney, Hutton and
2 Lasater firms based on anything other than the
3 quality of the bids that the commission received?

4 A I have no reason to believe that. Because
5 it was well scrutinized and if they had done it
6 otherwise, Stephens would have blown the thing wide
7 open. I don't think it would have happened if -- I
8 won't say by far but the better bid on some basis.

9 Q Did you have any reason to think at that
10 time that Lasater & Company would be awarded the
11 underwriting contract from the State Police
12 Commission no matter what kind of bid it submitted?

13 A No, I didn't. In fact, I thought -- I
14 thought if we had the best bid we might not get it.
15 We were pleased, of course. We were a young firm, we
16 were pleased that we did win it, although I don't
17 think it was all that profitable to us, frankly. But
18 it was something that we had -- we had worked on and
19 we were pleased to get it.

20 But I didn't think it was anything except
21 we turned the best bid in. It was scrutinized by the
22 Police Commission, as I understood it, at that time

1 and I think it went to a special committee of the
2 legislature, and they looked at it.

3 Q Was underwriting securities more profitable
4 or less profitable to Lasater & Company than the
5 other business activities it was engaged in?

6 A It was just a small part of our business.
7 Our biggest business was in the secondary market,
8 dealing with banks and savings and loans, insurance
9 companies, and things of that nature. Selling bonds.

10 Q Was selling bonds to savings and loans and
11 insurance companies and other investors more
12 profitable to the firm than was underwriting
13 securities for the state of Arkansas?

14 A I almost -- I didn't really -- I am not a
15 bookkeeper, but I would say yes by a large
16 percentage.

17 MR. O'CALLAGHAN: Are you talking about
18 percentage of the work that was done or just total
19 number?

20 THE WITNESS: I was talking about the
21 profitability of it. Our profits were derived
22 primarily with the sale of bonds in the secondary

102

1 market. The underwriting would just be a small
2 percentage of our business.

3 MR. O'CALLAGHAN: But the question is
4 whether or not the returns on the underwriting
5 efforts were as great or less than the returns that
6 you received from the secondary market trading.

7 THE WITNESS: I said they were less,
8 considerably.

9 BY MR. FEUER:

10 Q When Collins, Locke & Lasater or Lasater &
11 Company underwrote bonds for the Arkansas Housing
12 Development Agency or the Arkansas Development
13 Finance Authority, was the firm at risk on those
14 bonds?

15 A I don't really know. I have a feeling when
16 you bought them, you owned them. You know, if you --
17 that wasn't my cup of tea, but I don't think you
18 were -- I don't think that -- it wasn't best efforts,
19 there was no best efforts involved. If you bought
20 the bonds, you owned the bonds.

21 Q As far as you were aware, did the firm's
22 ability to make money from underwriting the bonds

1 depend on the firm's ability to sell the bonds?

2 A Yes, definitely. We didn't keep them
3 ourselves; we had to resell them. Most times I
4 think -- I remember back we associated ourselves with
5 the other firms that would agree to take down so many
6 of the bonds. We weren't that big, but we could take
7 down \$26 million worth. We would get other firms to
8 go in with us -- we would get other firms to bid with
9 us sometimes.

10 MR. FEUER: I have no more questions at
11 this time.

12 THE WITNESS: Thank you.

13 EXAMINATION

14 BY MR. O'CALLAGHAN:

15 Q Just so we are clear, the two-hour meeting
16 that you had right after Mr. Clinton lost to
17 Mr. White?

18 A Right.

19 Q Part of the -- one of the purposes of the
20 meeting was for -- I guess you said he was looking
21 for suggestions on what he could do if he ran again?

22 A That's right.

1 Q Wasn't another purpose of the meeting to
2 convince Mr. Lasater to contribute money to any
3 campaign efforts?

4 A I think that would be another reason, to
5 see if Mr. Lasater was supportive, and if his support
6 meant also financial support. I'm sure, being a
7 politician, I would say definitely Mr. Clinton had it
8 on his mind. And Mr. Lasater supported him because
9 Dan at that time was considerably wealthy.

10 Q Very successful man in the community?

11 A Very successful man. And Dan had never
12 really participated in politics at any level, and his
13 association with me gave him a little exposure to
14 it. And he probably wished he never met me or Bill
15 Clinton, I am sure.

16 Q During the meeting, when you were having
17 discussions, did the governor suggest anything he
18 could do in return for either monetary or spiritual
19 support that he was asking for?

20 A No. No, Bill never did that.

21 MR. O'CALLAGHAN: I have no further
22 questions at this time.

1 THE WITNESS: Okay. Does that conclude,
2 gentlemen?

3 MR. O'CALLAGHAN: Mr. Feuer is trying to
4 think if there is anything that needs to be
5 revisited.

6 EXAMINATION

7 BY MR. FEUER:

8 Q At that point in time, in November 1980,
9 was Mr. Lasater --

10 A 1980 now, wait a minute. You are talking
11 about 1980?

12 Q I think --

13 A Go ahead and ask your question, maybe I
14 interrupted.

15 Q I think that Frank White defeated Bill
16 Clinton in 1980.

17 A That's probably about right, yes.

18 Q At the time of this meeting, shortly after
19 that election, how was Mr. Lasater regarded in Little
20 Rock, if you know?

21 A Very high esteem. Everybody wanted to
22 touch him. It was like he had gold on him.

1 Q Had he been successful in business?

2 A Yes, he was very successful. I will give
3 you a real brief -- Dan had started a firm called
4 Ponderosa Steak Houses up in Dayton Ohio, at a very
5 early age, in his early 20s, took it public, became a
6 multimillionaire at 28 years old, had sold a majority
7 of his stock and kind of retired, and got into the
8 horse business.

9 And he was very popular in the state
10 because he was a native of Arkansas. He was born
11 about a hundred miles from Little Rock here in a
12 small town. His father had moved, when Dan was about
13 10 or 12 years old, into Indiana. Dan was raised in
14 an 8 by 24 trailer with his mother and father and
15 brother. So he came from very meager means and he
16 started out sweeping out a McDonald's in Kokomo, and
17 ended up -- they made him manager when he was 19
18 years old. He was about 19 years old and he was made
19 manager, and he was voted the outstanding McDonald's
20 manager in America.

21 He flew to San Francisco or West Coast
22 somewhere, they gave him the honor. Came back and he

1 was ambitious and wanted to start his own chain, and
2 got a gentleman in Kokomo to put money up. They
3 started a chain of hamburger joints. After his wife
4 at the time and he sold that out and got in the steak
5 business, started Ponderosa and made a big fortune
6 there.

7 But how he got popular in Arkansas, he came
8 back and was real big in the racing business here.
9 And he won about three or four Eclipse Awards, and --
10 which is the highest award you can get in racing, and
11 you are voted by your -- by your cohorts for this
12 award.

13 So he had a very good reputation here at
14 that time. And, in financial circles and social
15 circles and he was a power, he was a -- he was young,
16 energetic, kind-hearted guy, and he was well
17 respected here at that time.

18 Q Would it be fair to say that at the time of
19 this meeting when Governor Clinton had just been
20 defeated for re-election --

21 A Yes.

22 Q -- that Mr. Lasater may have been viewed as

1 a more successful figure than Governor Clinton was?

2 A No doubt about it. He was -- Dan was -- he
3 was kind of the golden boy. If you can imagine, I
4 mean, he was new to the state, he had brought new
5 capital in here, and there were things he had done,
6 he had been very successful at. And he was just kind
7 of a -- he was a celebrity. He was definitely a
8 celebrity here in the city. Not only in this city,
9 but he was all over the United States. And everybody
10 was glad to have him and he was very generous with
11 all his funds. Like the Tommy Mitchum story I told
12 you, he just said give him \$500, that's kind of the
13 way he operated.

14 MR. FEUER: I have nothing more.

15 EXAMINATION

16 BY MR. O'CALLAGHAN:

17 Q Mr. Locke, I have a couple of quick
18 questions.

19 A Okay, guys.

20 Q Do you know whether Mitchell Lasater helped
21 pay for Roger Clinton's legal bills in 1985?

22 A I don't know that.

1 Q Excuse me. 1984.

2 A I don't know that.

3 Q Do you know if Bill Wilson ever -- an
4 attorney by the name of Bill Wilson ever represented
5 Mr. Lasater?

6 A Yes, he was his attorney.

7 Q Do you know if he also represented
8 Mr. Clinton?

9 A I don't know about that. I know he was
10 Mr. Lasater's attorney at one time.

11 Q And are you aware when the first public
12 reports appeared in the press that Mr. Lasater was a
13 user of cocaine?

14 A I don't -- I don't remember that. Must
15 have been maybe late '86, I guess. I mean, I don't
16 know. I don't know when that -- I don't know when
17 that first appeared.

18 Q Are you familiar with whether any of those
19 reports appeared prior to Lasater & Company receiving
20 the police radio bond contract?

21 A No.

22 Q Was that ever brought up as a topic of

110

1 discussion?

2 A No, not to my knowledge.

3 Q I am going to use one quick article to try
4 to refresh your recollection, and then I should be
5 finished.

6 I have an Arkansas Democrat article here
7 from -- dated 2/27/85.

8 A When?

9 Q February 27, 1985. Produced to the
10 committee, bears a Bates stamp DKS 017636. And it
11 is entitled "Testimony links cocaine use, a
12 lawmaker's offspring, at trial." And in the second
13 column of that article, there is a report of
14 testimony given by a Gina Canada, where it is
15 reported that she testified that -- it reads halfway
16 down -- two-thirds of the way down this column, it
17 reads "Ms. Canada also testified that Dan Lasater, an
18 Arkansas native who owns a race horse farm in Florida
19 who once gave Roger Clinton \$8000 to help settle drug
20 debts, also used cocaine." Does that help refresh
21 your recollection?

22 A I remember -- I don't remember that

1 article, but specifically, I remember the girl Gina
2 Canada. She was the daughter of Senator Canada, Bud
3 Canada, but I don't recall. I am not saying it
4 wasn't in there, I just don't recall it.

5 MR. O'CALLAGHAN: Okay.

6 THE WITNESS: I remember -- I do remember
7 Dan's name being brought up. This is during Roger
8 Clinton's trial or something?

9 MR. O'CALLAGHAN: Actually I believe it was
10 during the trial of Sam Anderson.

11 THE WITNESS: Okay, I remember something
12 about Dan's name being brought up in that. I don't
13 remember it being in print.

14 MR. O'CALLAGHAN: Okay, thank you. I have
15 no further questions.

16 THE WITNESS: Okay.

17 MR. FEUER: Thank you, Mr. Locke.

18 (Whereupon, at 3:30 p.m., the deposition
19 was concluded.)

20

21

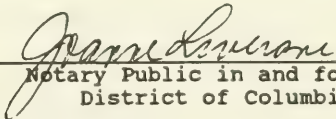
22

GEORGE E. LOCKE

CERTIFICATE OF NOTARY PUBLIC & REPORTER

112

I, JOANNE LIVERANI, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires

JULY 31, 2000

**DEPOSITION OF FRANK W. OLDHAM, JR.
IN RE: S. RES. 120**

THURSDAY, APRIL 25, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of FRANK W. OLDHAM, JR., called
for examination pursuant to notice of deposition, at 3:40 p.m. in
Room 640-A of the Hart Senate Office Building, before JOANNE
LIVERANI, a Notary Public within and for the District of Colum-
bia, when were present:

H. CHRISTOPHER BARTOLOMUCCI, Esq.
Majority Associate Special Counsel
GLENN F. IVEY, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

CONTENTS

WITNESS	EXAMINATION
Frank W. Oldham, Jr.	
by Mr. Bartolomucci	4
by Mr. Ivey	74

P R O C E E D I N G S

MR. BARTOLOMUCCI: This is a deposition conducted pursuant to Senate Resolution 120, which establishes a Special Committee under the Banking Committee to conduct an investigation of Whitewater Development Corporation, and certain related matters.

This deposition is being taken in advance of public hearings at which you may or may not be called to testify. I will be asking you questions under oath. If you don't understand a question, please let me know and I will rephrase it, and tell me at any time if you need a break.

Our court reporter is going to prepare a record of the questions and the answers, and your deposition will be treated as committee confidential, until the commencement of the hearings.

And as I explained to you before we began, you will get a chance to review your deposition to make any minor corrections, and you will be provided a copy of it prior to the time that you are called to testify publicly if that happens.

4

MR. OLDHAM: Already, sir, that sounds fine.

MR. BARTOLOMUCCI: I think I told you you could be represented by counsel if you wanted to.

MR. OLDHAM: I don't need counsel.

MR. BARTOLOMUCCI: Fair enough.

Just so you know, objections to the forms of questions we note for the record, and it is also permissible to object to questions on grounds of privilege, or being beyond the scope of the Senate's investigation. Ultimately, the chairman of the committee rules upon objections.

I am going to go ahead and ask the court reporter to swear you in.
Whereupon,

FRANK W. OLDHAM, JR.
was called as a witness and, having first been duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. BARTOLOMUCCI:

Q Tell us your full name for the record.

A Frank W. Oldham, Jr.

1 Q O-l-d-h-a-m?

2 A Yes, like "old ham."

3

4

5 Q Can you tell us for the record your current
6 work address.

7 A 100 West Washington, Jonesboro,
8 J-o-n-e-s-b-o-r-o, Arkansas.

9 Q And can you give us a fast summary of your
10 educational background.

11 A I have an associate's degree from Williams
12 Baptist College. I have a bachelor of science degree
13 from Arkansas State University. I have an MA degree,
14 master of arts degree, in marketing from Central
15 Missouri State University. I have a PhD in business
16 administration from the University of Arkansas at
17 Fayetteville, and I am a graduate of the advanced
18 management program at the Harvard Business School.

19 Q Would you tell us what your present
20 occupation is?

21 A I am chairman, president and CEO of
22 Boatmen's Bank, B-o-a-t-m-e-n-'s Bank of Northeast

1 Arkansas.

2 Q Mr. Oldham, how long have you been with
3 Boatmen's Bank?

4 A Actually with Boatmen's Bank, it was a year
5 in February. Before that, from 1991 till then, I was
6 with Worthen Banking Corporation.

7 Q Did Worthen have some relationship to
8 Boatmen's Bank?

9 A They sold out to Boatmen's Bank Shares. In
10 other words, they were acquired. They were merged,
11 and my employment continued after the merger.

12 Q What was your association with the Security
13 Bank of Paragould?

14 A In 1983, I became chairman, president and
15 CEO of Security Bank of Paragould and served in that
16 capacity until 1985. Now, I don't know the exact
17 date in 1985, but I think it was probably May or
18 June. In that time, at that time, I became -- I was
19 chairman of the bank and became president and CEO of
20 the holding company that owned the bank and continued
21 in that capacity until July or August of 1991.

22 Q So you came to Security Bank in 1983 as

1 chairman, president and CEO?

2 A That's correct.

3 Q Do you remember what month that was or what
4 season?

5 A The exact date was April the 13th, 1983.

6 Q And then in May or June of '85, you -- you
7 remained as chairman, but essentially were -- you
8 were running the holding company?

9 A That is correct.

10 Q And how would you describe your
11 responsibilities with respect to the Security Bank in
12 those two time periods?

13 A Well, I had overall responsibility for the
14 operation of the bank, typical of most bank
15 presidents, and also served as chairman of the board,
16 and presided over board meetings.

17 Q Would you ordinarily have any involvement
18 with particular loans issued by the bank?

19 A I did -- I did not. Ever since I have been
20 a CEO of a bank, which has been since 1983, I have
21 never made loans. And there is a good reason for
22 that. The reason is, that I don't philosophically

1 believe that a person can function as a bank CEO and
2 have a loan portfolio at the same time. I just don't
3 believe you can do your job as well as it could be
4 done, and for that reason I have never made loans.

5 Like I say, I have never made loans. I
6 have never made loans while serving in the capacity
7 of CEO of the bank or chairman of the bank.

8 Q When you say that it is difficult to do
9 both, is that simply because of time limitations or
10 is there some sort of philosophical conflict?

11 A No, there is no philosophical conflict. It
12 has more to do with time limitations. If you are
13 really functioning as you ought to function as a
14 president of a bank, you don't have time to make
15 loans and properly analyze them and properly document
16 them, properly collect them. You just don't have
17 that time.

18 Q When you say that you don't make loans,
19 does that include things like loan extensions or
20 renewals?

21 A No. Routinely, while I was at Security
22 Bank, if a loan officer happened to be out of town or

1 indisposed or gone on a trip or National Guard camp
2 or whatever, and a loan came up for renewal, and that
3 loan officer -- assuming the loan was small enough to
4 be handled by that loan officer alone -- and that
5 loan officer had approved an extension, then it was
6 not uncommon for me to sign an extension agreement
7 simply to facilitate the process in the absence of
8 the loan officer.

9 And I have loan authority. I can sign
10 extension agreements, and we commonly use extension
11 agreements and do in Arkansas, because of the usury
12 law in Arkansas.

13 Q Would you explain that to me, briefly, why
14 it is advantageous in Arkansas to use extension
15 agreements?

16 A Well, the Arkansas usury law limits loans
17 to five basis points over the federal discount rate.
18 That's the maximum that you can charge on a loan in
19 Arkansas. Like today, the maximum that you can
20 charge on a loan in Arkansas is 10 percent.

21 It doesn't make any difference if it is an
22 unsecured credit card loan or it is a marginal or a

10

1 high risk commercial loan or a low risk commercial
2 loan, or whatever it is, the maximum is 10 percent.

3 Well, if you make loans for an extended
4 period of time, let's say you have made a commitment
5 to somebody that this will go on a five-year
6 amortization schedule or 10-year amortization
7 schedule. Given the volatility of interest rates,
8 you would not want to fix the interest rate for 10
9 years.

10 So commonly what happens in Arkansas, is
11 that the loan matures each year. And that loan then
12 is extended for another year with what's called an
13 extension agreement, which, if a loan has performed
14 satisfactorily, is a routine exercise. But it
15 enables you at the time of extension to adjust the
16 interest rate up or down, depending on what interest
17 rates have done. So that way you lessen the exposure
18 of the bank to fluctuations in interest rates.

19 Q I take it you know Marlon Jackson?

20 A Yes, I know him very well.

21 Q How do you know Mr. Jackson?

22 A Well, he was a stockholder in the bank in

1 Paragould. I was a stockholder in the bank of
2 Paragould. I replaced him as chairman, president and
3 CEO of that bank. I have known him for -- well, let
4 me think a minute.

5 I probably have known him for at least 27
6 years. I mean we are both bankers. Arkansas is a
7 small state. I probably know 150 bankers in
8 Arkansas, but I consider Marlon to be good friend and
9 at one time a business associate.

10 Q So you replaced him as chairman, president
11 and CEO at Security Bank when you joined in April of
12 '83?

13 A That is correct.

14 Q And when he left subsequent to April of
15 '83, did he have any continuing relationship with
16 the bank, any official relationship?

17 A As bank commissioner. The relationship
18 that a -- to my knowledge, the relationship that a
19 bank commissioner would have with any state chartered
20 bank in Arkansas. He put his stock holdings, which
21 were considerable, in the bank into a blind trust.
22 To my knowledge, it functioned as a blind trust.

1 So --

2 Q All right. So his responsibility, then,
3 would have been as a regulator of the bank rather
4 than as someone acting in the specific interest of
5 the bank itself; is that fair?

6 A I think that's a fair statement. I do
7 not -- I have no reason to believe that he would
8 treat that bank any differently than he treated any
9 other state chartered bank in Arkansas.

10 Q I take it he had to resign completely from
11 the board to assume the position of bank
12 commissioner?

13 A Absolutely. He not only had to resign
14 completely to the board, but he had to take an oath
15 of office. I haven't read it so I don't know what it
16 contains, but I would assume that it would cover such
17 things as showing partiality or anything of that
18 nature.

19 Q All right. Now, I am sure you also know
20 William Fisher.

21 A I hired Mr. Fisher to be president and CEO
22 of the bank, in -- it was either -- I think it was

1 either April, May or June of 1985. Now keep in mind
2 I am doing this from my recollection. I haven't done
3 any research on this.

4 Q No, I think your memory at this level of
5 generality is just fine for our purposes.

6 A Okay.

7 Q I am trying to establish a rough time
8 line.

9 A I am just interested in accuracy. I hope
10 you understand that.

11 Q Of course.

12 So essentially at the point where you went
13 on to the holding company, in May or June of '85, you
14 hired Mr. Fisher to replace you as president and CEO?

15 A That is correct.

16 Q And do you know how long he was in that
17 job?

18 A Let's see. I was going to say at least
19 until 1991, when I left, and I believe that's
20 correct. At least until 1991. I left in July or
21 August of 1991. And he served in that job, I know,
22 from 1985 till then, and I think maybe a year beyond

1 that.

2 Q All right. The last person I want to ask
3 you about in connection with the Security Bank is
4 Charles Campbell.

5 A Yes, sir.

6 Q How do you know him? What job did he have
7 at the bank?

8 A Charles was a loan officer at the bank when
9 I arrived full-time in 1983. And I had casually
10 known him prior to that, because he was a banker.
11 But he was there when I got there.

12 Q And was he there through 1991?

13 A No. He was not.

14 Q When did he leave?

15 A Now this is where my memory may be a little
16 faulty. He was -- he was still there in the summer
17 of '85 when I went to the holding company. I am
18 going to guess, and this is a guess, I think he
19 probably left the bank in 1987. Now, that's just a
20 rough guess, but I think it might have been '87 or
21 late '86, and as I recall, he went to the Bank of
22 Yellville as its president.

1 Q At the time you were at Security Bank, Bill
2 Clinton was the governor of Arkansas; right?

3 A That is correct.

4 Q And did you know Mr. Clinton?

5 A In 1983, I would say that our acquaintance
6 was casual. But you need to understand that, most of
7 Arkansas knows Mr. Clinton, and he knows most of
8 Arkansas. In fact, he is kind of an amazing guy. He
9 could come over here on the Court Square of
10 Jonesboro, Arkansas, and I bet you if 200 people
11 walked up to him over there and he had ever met them
12 before, he could call them by name. He has an
13 amazing memory for names.

14 So I would -- he could call my name, is my
15 point. I had known him and known of him since his
16 days at University of Arkansas at Fayetteville as a
17 law professor or when he ran for Attorney General and
18 that sort of thing, but I would call our relationship
19 at that point very casual.

20 Q Did it ever become more than casual?

21 A Not -- not -- no, not really.

22 I mean our relationship has improved over

1 the years. If you mean by that, does he know me
2 better now than he knew me then, the answer would be
3 yes. If I walked in the Oval Office today, he could
4 call me by name and he could ask me how my wife is,
5 and how my two kids are and he could call out the two
6 kids' names, but he knew that for a lot of people,
7 you need to understand.

8 Q I was just trying to get at whether he knew
9 you better than he seems to know the -- most of the
10 people of Arkansas, or whether you were in that same
11 category.

12 A I have been a supporter of his every time
13 he's run for public office, but I mean, so have
14 thousands of other people, I guess is my point.

15 Where are you from?

16 Q Well, normally I ask the questions in these
17 things, but I don't mind telling you I am from
18 Florida.

19 A Okay, you are from a very popular state.

20 Q Yes.

21 A Arkansas has just over 2 million people. I
22 mean the whole state. And as many times as he ran

1 for office, he knows lots of people just as well as
2 he knows me, I guess is my point.

3 Q Okay, and do you also know Mrs. Clinton?

4 A I met Mrs. Clinton for the first time, it
5 would be in the fall of 1991. It was just -- it was
6 the day that Mr. Clinton announced his candidacy for
7 president and there was a reception at the Excelsior
8 Hotel in Little Rock, and my wife and I went to the
9 reception to congratulate the governor, and
10 Mrs. Clinton was there with him, and that is the
11 first time, to my recollection, that I ever met
12 Mrs. Clinton.

13 Q Is that the only time you have met her?

14 A One other time. Last year sometime, there
15 was an Arkansas function, and I forget the name of
16 it, at the White House. And my wife and I went to
17 that function. We were invited to a reception in the
18 Rose Garden, and to my recollection, I met
19 Mrs. Clinton for the second time then.

20 Q Do you know how you came to be invited to
21 this?

22 A My banking company, Boatmen's Bank Shares,

1 was a corporate sponsor, one of 10 or 20 corporate
2 sponsors of this picnic that was had at the White
3 House, and I was asked to represent our banking
4 company at that picnic.

5 Q So really then -- when you say you were
6 asked, were you asked by the company or by someone at
7 the White House?

8 A No, I was asked by the company.

9 Q By the company?

10 A Yes.

11 Q And I take it at this garden party you
12 never had occasion to talk to the Clintons about
13 Whitewater?

14 A I have never had any discussions with the
15 Clintons or any of their staff about Whitewater.

16 Q Fair enough.

17 A I had never heard of Whitewater until the
18 1992 presidential election, and I can remember my
19 first reaction when I heard the term "Whitewater." I
20 said -- my thought was, what in the world is that?
21 Of course, it soon became clear what it was.

22 Q So I take it prior to that time in the '92

1 elections you didn't know about the Clintons'
2 investment in the Whitewater real estate deal?

3 A No. I knew that the governor had a small
4 loan at Security Bank, but I didn't know that that
5 had any relationship to Whitewater, and to this day,
6 I really don't know that it does.

7 Q Did you or do you know Jim or Susan
8 McDougal?

9 A Never had the pleasure of meeting them. I
10 mean that a little bit tongue in cheek, but -- no, I
11 do not know them. I never met them.

12 Q Do you know if anyone at the Security Bank
13 had a relationship with the McDougals?

14 A To my knowledge, no.

15 Q Let's start talking about that particular
16 loan. That's really supposed to be the focus of our
17 deposition today.

18 A Okay.

19 Q According to the documentation we have,
20 Governor Clinton took out a loan in the amount of
21 \$20,800 from the Security Bank on September 30th,
22 1983.

1 A What was the date again?

2 Q September 30, 1983.

3 A Okay.

4 Q Is this the loan that you said you were
5 aware of?

6 A Yes. I thought it was \$23,800.

7 Q That was the original loan amount. I don't
8 know how much they ended up paying in the final
9 analysis.

10 A I knew it was over 20,000 and I thought it
11 was 23,000, but \$20,800 sounds just as correct to me.

12 Q You would have been at Security Bank a
13 little less than five months at that point. Did you
14 have anything to do with this loan being taken out?

15 A You know, I guess it was last year about
16 this time, I am not certain of the exact dates, but I
17 got a call from local FBI agent who said he needed to
18 come by and ask me some questions about this
19 particular loan, and --

20 Q Let me interrupt you, because we really
21 don't want to intrude upon any potential confidential
22 communication you had with the FBI.

1 A I don't think there was anything
2 confidential about the communications I had with
3 them. It was pretty routine conversation.

4 Q Okay. Well, I mean --

5 A I don't mind it. It doesn't worry me.

6 Q Well, I guess -- it is fine for you to
7 divulge the knowledge that you have to us.

8 A Okay, let me just say it this way. I was
9 interested in accuracy and being as factual as I
10 could be, so not knowing really any of the details
11 about it, I took it upon myself to go over to the
12 bank and request to see a copy of the loan file so
13 that I could get familiar with it, which I did.

14 I flipped through it, and so I have some
15 surface knowledge of the loan and the loan documents
16 and it is then when I looked at the loan file that I
17 realized that I had signed an extension agreement. I
18 don't know whether it was one year or two years after
19 the loan was made, but I saw that I had signed an
20 extension agreement. I did not see anything out of
21 the ordinary about the loan. In fact, if I had a
22 similar application today, and I was the loan

22

1 officer, I'd approve the loan based on what I saw in
2 that file.

3 Q Can you tell me when you reviewed the loan
4 file in connection with that FBI interview?

5 A I can't give you an exact date. It was
6 probably -- what I don't remember was the -- I don't
7 know the exact date they came. Why, is there a
8 problem with it?

9 Q I wanted to know what year it was.

10 A That would be 1995.

11 Q I wondered how recently you had gone
12 through the stuff.

13 A About a year ago.

14 MR. IVEY: Mr. Oldham, there is not a
15 problem about you having talked to the FBI or
16 mentioning it. The committee has tried to not step
17 on the toes of the Independent Counsel's
18 investigation.

19 THE WITNESS: I apologize for mentioning
20 that I didn't realize that and I am trying to be
21 candid.

22 MR. IVEY: And we appreciate that.

1 MR. BARTOLOMUCCI: Certainly do.

2 BY MR. BARTOLOMUCCI:

3 Q Let me ask you this. There is an article
4 that appears in The Arkansas Democrat Gazette from
5 1994 where the loan is discussed and Marlon Jackson
6 is interviewed, and in that article, Mr. Jackson
7 says, he didn't know anything about the loan at
8 Security Bank for eight or nine years, and that the
9 Clintons' connection to the Security Bank was through
10 its chairman at the time, Frank Oldham, whom they
11 knew from the period in the 1970s when all three
12 lived at Fayetteville.

13 A Well, actually, I don't -- I am not sure
14 that I actually lived at Fayetteville at the same
15 time the Clintons were there. I may have, 19 -- I
16 was in Fayetteville 1971, June of 1971 until August
17 of 1973. I never had any interactions with Bill or
18 Hillary Clinton during that period of time. I think
19 Mr. Jackson is mistaken about that.

20 MR. IVEY: Or the news reporter.

21 THE WITNESS: Or the news reporter, that's
22 true, and that would -- I would be more inclined to

1 say the news reporter was mistaken about it from the
2 quality of reporting I see nowadays.

3 BY MR. BARTOLOMUCCI:

4 Q What about the claim that you were the
5 Clintons' connection to the bank with respect to the
6 loan?

7 A I don't have any idea where that idea came
8 from. I think if I had gotten a call from Bill or
9 Hillary Clinton or any of their representatives or
10 staff, I would remember it. I mean, don't you think
11 you'd remember it if you got a call from the governor
12 or the first lady in requesting the loan? I think I
13 would remember it, and I have absolutely racked my
14 brain trying to remember if I actually got a call of
15 that nature, and I cannot remember getting a call.

16 I must tell you, though, if I had, and they
17 had requested to borrow \$20,000 or 20,000 -- what was
18 it, \$800?

19 MR. IVEY: Yes, sir.

20 THE WITNESS: That given the information
21 that I have seen, I would have approved the loan. I
22 mean, there are credit cards that have those kind of

1 balances on them.

2 BY MR. BARTOLOMUCCI:

3 Q And that's true. Even though it was an
4 unsecured loan?

5 A It was not uncommon for us to make
6 unsecured loans. In fact, our bank policy -- and
7 it's common policy -- is that an unsecured credit
8 could be made up to 10 percent of the applicants' net
9 worth. I do recall from looking at that file last
10 year that I think the financial statements that the
11 Clintons submitted showed a net worth of over
12 \$300,000 at the time. And so certainly that loan was
13 well within that 300 -- was well within that 10
14 percent general rule of thumb.

15 You need to understand that's a general
16 rule of thumb; it is not an iron clad rule. There
17 have been cases where we have made unsecured
18 credits -- I am talking about the banks that I have
19 been CEO of -- have made unsecured credits for short
20 periods of time in excess of 10 percent, not much in
21 excess of 10 percent, depends on the liquidity and
22 the nature of the assets of the individual making the

1 application.

2 Q I note on the loan form it is a one-year
3 note, and I take it that was done probably for the
4 reasons you set forth at some length at the beginning
5 of the deposition?

6 A I would venture that 95 percent or more of
7 the loans that were made in that bank and most other
8 banks in Arkansas -- because that bank wasn't
9 unique -- were for one year because of the usury
10 issue. Keep in mind, in the late '70s and early
11 '80s, as I recall, interest rates were pretty high,
12 and pretty volatile. Due to the usury situation in
13 Arkansas, you could not afford, because of asset
14 liability management issues, to extend the loan out.
15 In other words, if it were going to be a five-year
16 loan, you didn't make five-year fixed rate loans.
17 You just didn't do that. It was bad decisionmaking.

18 Q Now, based upon your review of the file,
19 and I take it you saw the loan application itself,
20 you didn't see anything remarkable or out of the
21 ordinary about it, about the loan application?

22 A I didn't think the -- I didn't think the

1 application was filled out quite as in detail as it
2 probably should have been, but apparently, from the
3 file, there was a fairly detailed accompanying
4 financial statement.

5 I might add at that time, on small loans of
6 that nature, and that was a small loan for that bank,
7 that it was not uncommon for the loan applications to
8 not be filled out in detail.

9 Q So you don't have any reason to believe
10 this loan wasn't handled normally?

11 A No, I really don't.

12 Now, my knowledge of the loan and how it
13 was handled, you must understand, is really for a
14 two- or three-year period there, although I must
15 admit that there were not many loans that were made
16 in that bank, many of them after the fact, that I
17 didn't review. In other words, I looked at the
18 files. So did the board. We shared the loans of
19 that bank, on a monthly basis, all the loans of that
20 bank, in report format with the entire board.

21 Q And this loan wouldn't have received any
22 favorable treatment because it was the governor's

1 loan, would it?

2 A No, I don't think so, I really don't.

3 If somebody had called me from the
4 governor's office, or the governor himself, I would
5 have said, although I do not recall anybody doing
6 this, you understand, I would have said, sure,
7 Governor, we will consider the loan. Send me your
8 financial statements and we will send you an
9 application. And you fill out this application and
10 return it, and we will get back with you. That's
11 exactly what I would have said.

12 Q You think the same loan application by
13 someone with similar assets and credit history and
14 job of similar stability also would have had such a
15 loan request approved?

16 A Well, I think so. As I recall at that
17 time, and from reading, as I recall at that time, I
18 don't recall at all reading all this hullabaloo and
19 the press accounts and all this about Mrs. Clinton.
20 I think at that period of time she probably was a
21 partner by what was considered by people to be the
22 number one law firm in the state and so she

1 certainly, if she was a partner at that time, she
2 certainly had the income and the wherewithal, on her
3 own, to amortize that loan. The governor then and
4 the governor now don't make that much money in this
5 state. I think the governor's salary then was
6 probably \$30,000 or \$35,000 or something of that
7 nature.

8 Q Do you recall having any communications
9 with the governor or Mrs. Clinton about the loan?
10 Did you ever meet with them about it or talk to them
11 about it?

12 A I think I can categorically state,
13 emphatically state, under oath, which I recognize I
14 am, that to the best of my knowledge, I think the
15 best of my knowledge is 100 percent, that I never had
16 any discussions with the governor or the President,
17 the First Lady, or any members of their staff or
18 their representatives about their financial affairs.

19 Q Including this particular loan?

20 A Absolutely.

21 Q So then you wouldn't know what the purpose
22 of the loan was?

1 A No. As I recall in looking at the file
2 last year on the application, I believe it said
3 something like business expense or business purposes;
4 is that not correct?

5 Q It says "business expenses."

6 A Okay.

7 Q I will ask this just on the off chance it
8 refreshes your recollection. It is our understanding
9 that the proceeds of this loan were used to pay off a
10 separate loan at Madison Bank & Trust, that loan
11 having been taken out in connection with the
12 Clintons' purchase of a model home for one of the
13 lots at Whitewater, which is what brings us to this
14 loan in the first place.

15 A Yes, I read that in the newspaper.

16 Q And you don't know anything about that from
17 your own knowledge?

18 A No. Not until I read it in the newspaper.
19 I'm also in the middle of reading this book called
20 "Blood Sport." Have you read that book?

21 MR. IVEY: Save your time.

22 THE WITNESS: Everybody tries to profit off

1 of this thing, everybody but the Clintons.

2 MR. IVEY: Off the record.

3 (Discussion off the record.)

4 MR. BARTOLOMUCCI: Now we are back on the
5 record.

6 THE WITNESS: Sorry for the
7 lightheartedness.

8 MR. BARTOLOMUCCI: Fair enough.

9 BY MR. BARTOLOMUCCI:

10 Q The loan application reflects that it was
11 approved by CDC. I take it that's Charles Campbell?

12 A I am thinking if there is anybody else it
13 could have been. I am certain -- I say I'm certain.
14 I know in all likelihood that is Charles D. Campbell.

15 Q I see a letter that he wrote where his
16 middle initial is D. So you didn't have two people
17 with the initials CDC?

18 A I am sure that's who it was.

19 Q Incidentally, would you know whether a loan
20 from Madison Bank to the Clintons would have been
21 considered an out-of-territory loan with respect to
22 that bank?

1 A Madison Bank, are you talking about?

2 Q In Kingston.

3 A Madison Bank of Kingston. It would
4 depend -- and I say this only on the knowledge of our
5 loan policy at Security Bank -- it would depend on
6 how their loan policy read, actually. Because for
7 example, in our loan policy at Security Bank, it
8 said -- I believe it said that our primary market was
9 a 50-mile radius of Paragould, Arkansas but it also
10 said that we recognize from time to time that there
11 would be opportunities to make loans elsewhere in
12 Arkansas, and in the Boot Hill of Missouri, and so we
13 allocated in that loan policy for those
14 opportunities, and as a matter of fact, we had
15 several loans on our books in Little Rock, Arkansas.

16 Q All right. Now, this particular loan, the
17 one from Security Bank to the Clintons would not be
18 considered an out-of-territory loan?

19 A No. Not in its general definition, not in
20 that general definition I just gave you. In a very
21 strict definition, it certainly because it is outside
22 the 50-mile radius, but we had several loans in

1 Little Rock, and elsewhere in the state.

2 Q All right, now, with respect to that
3 financial statement that you saw, I note that on the
4 second page of the loan application, there is a sort
5 of a chart which says "documents required," and then
6 you go down and it says "financial statement" and
7 that's checked off. It is actually the only thing
8 that's checked off in that particular chart.

9 A Right.

10 Q So, would that have been required pursuant
11 to some policy at the bank or state law or federal
12 regulation or would that have just been up to the
13 discretion of the loan officer?

14 A No. Two things. One, it is the policy of
15 the bank that you have a financial statement on a
16 borrower. Number two, it is an implied strong
17 suggestion -- I chuckle when I say that because there
18 are no such things as implied strong suggestions from
19 bank regulators -- if they say that statement, it
20 really means required from bank regulators. You just
21 don't make loans without financial statements,
22 without seeing the purported financial condition of

1 the applicant. That's not good policy. It is not a
2 violation of the law that I am aware of, but it is
3 not good policy, and it certainly would be frowned on
4 by regulators.

5 MR. IVEY: Just for the record, if
6 Mr. Bartolomucci could state whatever the exhibit
7 number is that he is reading from, for the record.

8 MR. BARTOLOMUCCI: I am afraid this
9 particular document doesn't have a Bates number on
10 it, but I would be happy to let you examine it after
11 the deposition.

12 MR. IVEY: Is this still the --

13 MR. BARTOLOMUCCI: I will do my best to
14 describe it.

15 THE WITNESS: Is that the only financial
16 statement in the file?

17 MR. BARTOLOMUCCI: I am not looking at the
18 financial statement right now. I am looking at the
19 Security Bank loan application.

20 THE WITNESS: Oh, okay.

21 MR. BARTOLOMUCCI: It is the Security Bank
22 loan application which says "documents required," and

1 then a check mark by "financial statement." So
2 that's the document I have been talking about.

3 THE WITNESS: Okay.

4 BY MR. BARTOLOMUCCI:

5 Q Just to clarify your policy at the bank,
6 would it have been the bank's policy to require a
7 financial statement with every loan or just loans
8 above a certain amount, or was that really the loan
9 officer's call?

10 A I can't recall specifically in 1983,
11 whether it was -- as I recall, there seemed to be
12 some threshold. It might have been \$10,000 or \$5,000
13 or something like that, and any loan over those
14 amounts would have required a financial statement,
15 but I don't remember -- I mean, the thing that I
16 would like for you all to understand -- and I think
17 you understand this, and I think both of you
18 understand this very clearly -- is this was 13 years
19 ago. This wasn't last year or the year before last.
20 It was 13 years ago.

21 But it -- my vague recollection is that
22 there was some amount of loan under which we didn't

36

1 get financial statements. I mean we knew the
2 borrower, small town, we knew the borrower, we knew
3 the reputation of the borrower, we knew where he was
4 employed, we knew his family and some of those
5 borrowers were for very small amounts. They didn't
6 have financial statements. They didn't know what
7 they looked like.

8 Q As far as you know, was there any state or
9 federal regulation or law applicable in 1983 that
10 would have required a financial statement for a loan
11 of this size?

12 A No, not that I am aware of. I am not
13 telling you there was not. Bank regulation books are
14 about 5-foot thick. I am exaggerating a little bit.
15 We might look in a nook and cranny in there and find
16 something applicable to this, but I think it was the
17 bank's policy and the bank's requirement that for a
18 \$20,000 unsecured loan, you would require a financial
19 statement. But as far as an existing law that I can
20 cite and point to, I can't do that.

21 Q Now, although the loan application is dated
22 September 30, 1983, it is our understanding that the

1 financial statement that the Clintons submitted was
2 dated April 25th, 1983 and was addressed to the Bank
3 of Cherry Valley. Did you notice that when you went
4 through the loan file? Let me back up.

5 Do you remember coming across the financial
6 statement?

7 A Yes, I do. I am trying to think whether I
8 noticed anything related to the Bank of Cherry Valley
9 when I looked at the financial statements. I may
10 have, but quite frankly, I don't remember whether I
11 did or I didn't. If I did, it didn't make any
12 impression on me. I mean, it didn't hit me between
13 the eyes and make me say, well, what is that or
14 anything like that. I could have, but I don't
15 specifically recall that.

16 Q Can you think of a reason why they would
17 have submitted a Bank of Cherry Valley financial
18 statement from a few months prior, submitted that to
19 the Security Bank in connection with their Security
20 Bank loan?

21 A The -- and I may have my times all mixed up
22 here, I need to preface this, but a member of the

1 governor's staff, or administration, or he was a part
2 of the administration, I guess, was a man named
3 Maurice Smith.

4 Q Yes.

5 A Okay. And Maurice Smith, as I recall, was
6 a maybe chairman, or significant stockholder anyway,
7 in the Bank of Cherry Valley. But that would be the
8 only connection I would know. I don't want to get
9 into speculation because speculation is not facts.
10 But that's the only -- that's the only connection I
11 could make between the Bank of Cherry Valley and
12 Governor Clinton and what you told me about the
13 statement saying it came from the Bank of Cherry
14 Valley.

15 Q Really what I was driving at was this: If
16 the Clintons are taking out a loan in September of
17 1983, would it have been acceptable for them to
18 submit an April 8th, 1983 financial statement to
19 another bank?

20 A Yes, it would.

21 I say yes it would, it would have been
22 acceptable at Security Bank of Paragould because the

1 requirement was that a financial statement be less
2 than a year old.

3 Q Didn't you say April '83?

4 Q I did. I did.

5 A The financial statements are considered
6 outdated if they are older than one year old by
7 regulation. It is considered not to be a current
8 financial statement.

9 Q So if they were told, look, you guys have
10 to submit a financial statement, and they said, okay,
11 we've got this one from five months ago, at --
12 from -- this we submitted to the Bank of Cherry
13 Valley, they might well have been told okay, just
14 submit that?

15 A Yes, there is no question about that. That
16 happens today. A lot of our customers today do
17 business with more than one bank. And particularly
18 our customers who use accountants, and they would
19 submit us the same statement that might be several
20 months old that they submitted to another bank. I
21 mean, I guess to sum that up, no, that would not be
22 uncommon nor would it be unacceptable.

40

1 Q One of the assets they list in the real
2 estate portion of the financial statement is a half
3 interest in 200 acres in Marion County. I don't
4 suppose you know anything about that, do you?

5 A Well, having read "Blood Sport," I do.

6 Q Prior to the time you read "Blood Sport."

7 A No. Marion County is --

8 Q That's where the Whitewater tract is
9 located.

10 A Marion County is the county where the
11 Whitewater tract is.

12 Q We understand that to be a reference to the
13 Whitewater land development.

14 A Okay.

15 Q In other words, that was listed. The
16 Whitewater development was listed as -- was scheduled
17 as an assets on the financial statement.

18 A Okay.

19 Q I just wanted to make sure you didn't know
20 anything about that.

21 A No.

22 Q Just generally, any borrower would be under

1 a legal obligation to be truthful with respect to the
2 information that they provide in a financial
3 statement?

4 A That's correct.

5 Q And you and bankers generally would take
6 that obligation very seriously; right?

7 A That is correct.

8 Q And in fact, it would be a crime to
9 deliberately provide false information on such a
10 form?

11 A That is correct. I think the key word is
12 "deliberately" provide false information.

13 The reason I preface that is that
14 borrowers' opinions of what something is worth might
15 differ from my opinion about what something is worth,
16 or your opinion about what something is worth. In
17 other words, people make investments, they make it
18 with the expectation of a return, and I think human
19 nature is that you tend to be optimistic about that.

20 Bankers recognize that when they look at
21 financial statements. And I sometimes make mental
22 adjustments for that when I am looking at somebody's

42

1 financial statements.

2 Q So your bank wouldn't have done any
3 investigating about what it considered to be the
4 accurate value of that property or any other -- any
5 of the other assets scheduled?

6 A No, you have a man with apparently stable
7 employment; at least he's thought well enough in the
8 state to be elected governor. You have a lady who is
9 I think -- I am not certain of this -- at that time a
10 partner in what's considered to be the number one law
11 firm in the state, two people that are well known to
12 everybody in the state, and there would be no reason
13 to really question anything they might provide you.

14 Q Now you alluded to earlier to having come
15 across, during your review of the file, an extension
16 agreement that you signed.

17 A Yes.

18 Q I can help you out here because I have a
19 copy of it.

20 A Well, good. Can you make out my
21 handwriting on it?

22 MR. IVEY: Just barely.

1 BY MR. BARTOLOMUCCI:

2 Q Well, you can see the O-l-d pretty
3 clearly.

4 A Okay.

5 Q So I figured out it was you, but let me
6 just tell you what that document reflects, and see
7 what you can recall about it.

8 A Okay.

9 Q It is an extension agreement, appears to be
10 a fairly small piece of paper, sort of 5 by 8?

11 A Yes, they were half -- half of a regular
12 size sheet of paper, approximately.

13 Q It says "amount extended, \$18,800, from
14 9/30/84 to 9/30/85."

15 The date on it is listed as 9/30/84. It's
16 got the signatures of apparently Bill and Hillary
17 Clinton and your signature.

18 What do you recall about this extension
19 agreement?

20 A Well, the interesting thing about it is I
21 didn't recall anything about it until I saw it in the
22 file, and I still doesn't recall anything about it,

44

1 and I have absolutely tried to remember any kind of
2 specifics surrounding that extension agreement.

3 First of all, the extension agreement, I
4 think I have already mentioned in my testimony, would
5 be routine because of the one-year nature of the
6 loans. Secondly, I signed several extension
7 agreements during my tenure as CEO of that bank, as I
8 think I have told you before, when a loan officer
9 would be gone or out of town or -- and it needed to
10 be mailed, or delivered if it was local or however,
11 whatever happened to that extension agreement. So it
12 would have been routine for me to sign that extension
13 agreement.

14 Q Given that the form bears the signatures of
15 both of the Clintons, you wouldn't have been in their
16 presence when this was executed?

17 A No. I can tell you that I'm 99 percent
18 certain it was executed in my office. In other
19 words, I sign it in my office, not in their presence.

20 Q Would they have signed it first, or first
21 you signed it and then it went to them? How would
22 that work?

1 A I would have signed it first, because it
2 had to be approved before they signed it. There was
3 some verbal agreement that it would be extended, and
4 they already had an extension agreement from
5 somewhere. Do you follow what I am saying? Those
6 extension agreements are pretty standard items, is
7 what I am saying.

8 Q So you would sign it --

9 A Does that extension agreement have
10 "Security Bank" at the top of it?

11 Q It does.

12 A It is possible that -- although I don't
13 think this is the way it happened, it is possible
14 that that extension agreement could have been sent to
15 the Clintons for their signature and when it got
16 back, I could have signed it. Or it is also possible
17 that I could have signed it and it was sent to the
18 Clintons for their signature. Do you follow what I
19 am saying?

20 Q I do.

21 A Okay.

22 Q One thing I was curious about, there is a

1 little notation at the top which appears to be
2 "loaded" and it gives a date 12/27/84. What does
3 that mean, "loaded"?

4 A I was asked about that before and -- I
5 didn't know what it meant, so I asked about what it
6 meant afterwards. What it meant is that that's the
7 day that it was loaded on to the computer. And I
8 thought, well, why that date, and why the -- what did
9 you say the date of the extension agreement was.

10 Q September 30, '84, which would have been
11 the date the loan was due, and the loaded date was
12 December 27, 1984.

13 A What I suspect happened -- I will be candid
14 with you about what I suspect happened, but I don't
15 know that this happened. What I suspect is it
16 probably took 60 days -- October, November, what is
17 it, 12 --

18 Q 12/27, almost three months.

19 A It might have taken 90 days to chase them
20 both down for their signatures.

21 Q Assuming that's what happened, I think we
22 have some evidence that it took a while for them to

1 sign this, which I will come to, would that have been
2 problematic, that the September 30th, 1984 date had
3 come and that the extension agreement signed by the
4 Clintons hadn't come back for almost three months
5 later?

6 A Would it -- what do you mean by
7 "problematic"?

8 Q Did that cause the status of the loan to
9 change in some remarkable way or --

10 A No, it didn't cause it to -- it would show
11 up on the past due list and if the loan, if the loan
12 went beyond -- I need to see the loan policy at that
13 time. And I am talking off the top of my head -- as
14 I told you, this was 13 years ago -- but I think the
15 policy was that if the loan was either 90 or 120 days
16 past due, that you put it on nonaccrual.

17 Q What does that mean?

18 A That meant that you charge off the
19 interest, and you quit accruing interest on the loan
20 until you either get it in a current condition or you
21 collect the loan. It doesn't mean that you don't
22 collect the interest, you know, the additional

1 interest that's due. It just means so that your
2 bank's books are accurate, there has to be a cutoff
3 point out there at which you quit accruing interest
4 on a loan that's past due.

5 Q So it would stop accruing interest, but
6 then if there were any extension, that would relate
7 back to the date when it stopped accruing?

8 A That's correct.

9 Q So the --

10 A In other words, you have to be very careful
11 about something like that because you don't want any
12 interest to fall through the cracks.

13 Q All right. Let me put another couple of
14 documents in next and see if this clarifies things
15 further. We've got a notice of past due loan
16 payments to Bill Clinton. This is dated October 5th,
17 '84, or in other words, about a week after that
18 extension.

19 A Yes.

20 Q And it says payment amount due, \$23,680.24?

21 A Maybe that's where I got my \$23,000 from a
22 little while ago.

1 Q I suppose it is.

2 What I surmise from this -- and tell me if
3 I am right -- maybe you or someone from the bank
4 filled out the extension agreement and dated it
5 September 30th, 1984, the loan wasn't paid, so it
6 became past due, this notice, for \$23,860 went out to
7 Bill Clinton, and then only later did the Clintons
8 sign the extension agreement and then again the
9 loaded date was 12/27/84?

10 A I can only speculate. Do you want me to
11 speculate?

12 Q Well, labeling it as such, sure.

13 A Okay. I just want you to know that I'm
14 labeling this as speculation.

15 What I speculate happened is that extension
16 agreement was mailed to the governor. Now, from --
17 again, from reading the newspapers, "Blood Sport" and
18 all this stuff that's been written, it is my
19 impression that the governor, now President, doesn't
20 pay very close attention to financial affairs.

21 And this extension agreement probably
22 landed on his staff or some staff member's desk or

50

1 whatever at the Capitol and it probably laid there
2 for whatever period of time. And these past due
3 notices, probably -- what's the address on that past
4 due notice?

5 Q 1800 Center, Little Rock?

6 A 1800 Center, Little Rock.

7 Q That's all it says, what, is 1800 Center
8 Little Rock? Do you know? I am afraid I have never
9 been to Little Rock.

10 A I know where Centre Street is, but I don't
11 know --

12 Q That's not the governor's mansion?

13 A It might be.

14 Q Is the governor's mansion on Centre Street?

15 A Let me think about where Centre Street runs
16 across. Liberty Mills Freeway because the governor's
17 mansion is out in -- what's called south Little
18 Rock. That could be. That could be, but I don't
19 know that's the address. I just know how and where
20 it is. I don't know where 1800 Center is.

21 Anyway, it is Little Rock. I suspect that
22 these past due notices either went to the governor's

1 office or that might be an incorrect address for all
2 I know.

3 Q Well, looking back, it is the address that
4 was provided on the loan application.

5 A That would probably, and I say probably, be
6 the governor's mansion.

7 Q When this loan became past due, when would
8 the bank have taken some further action with respect
9 to the loan if no payment was forthcoming or what
10 would have been the procedure or usual course
11 following the issuance of a past due notice?

12 A The usual course would be that the loan
13 probably got 30 days past due before anybody really
14 paid much attention to it. And then a letter might
15 be mailed explaining that the loan was past due and
16 arrangements needed to be made to extend it or make a
17 payment on it, and so on, and there might even be two
18 or three letters before that would happen and that
19 might roll out to about 60 days past due.

20 If you got out past 60 days past due, a
21 personal visit might ensue; in other words, camp on
22 the door step, a personal visit might happen, a

52

1 collection effort. If there were some extenuating
2 circumstances about why the extension agreement
3 hadn't been returned, allowances might be made for
4 that. But generally there would be about a 60-day
5 period of time in there where the attempted
6 communication would either be by telephone or by
7 mail.

8 There was no specific set pattern other
9 than that. We had a little computer there that spit
10 out these past due notices and then we had some
11 standard collection letters that were produced by
12 computer, that would go out. Telephones probably
13 wouldn't go into use until 45, 60 days out.

14 Q Referring to that loaded date, 12/27/84.

15 A Now, that load date would be probably
16 the -- that would probably be the actual date that
17 that was put into the computer. The extension
18 agreement could have been signed, in -- and sat on
19 their desk for a long time. It could have been
20 signed at the time of the date that was on it, but
21 that load date is the date that it was in our hands
22 to put it into the computer.

1 Q Would you know if it is likely you would
2 have had it long before the load date, or would it
3 likely have been loaded very soon after you had
4 received it?

5 A I would say it is probably -- and I
6 emphasize probably because I don't know -- those
7 extension agreements don't come into the loan
8 officer's offices. Typically they go into the note
9 department just like payments go into the note
10 department. They don't come -- they didn't come to
11 me as CEO of the bank or to the loan officers. They
12 were mailed in to a central collecting point called
13 the note department.

14 So, probably three or four days at most,
15 maybe a week, depending on the work load because, you
16 see, in one sense it didn't make any difference
17 because the interest was still accruing. You follow
18 what I am saying? It was just a matter of getting it
19 off of the past due list.

20 Q I guess I am just wondering since the
21 loaded date is almost three months after the date on
22 extension agreement, and since that would appear to

54

1 be more than 60 days, whether some action might have
2 been taken with respect to the loan.

3 A I'm sure some action was taken, but I don't
4 know what it was. I mean I didn't attempt to collect
5 it. I didn't work past dues. The people who make
6 the loans are the people who are responsible for the
7 past dues and/or collecting the loans.

8 Q And there might not be any concern about a
9 past due if the officer knew that an extension was in
10 the works, that he had an expression from the
11 borrower that they wanted a extension and the form
12 was in the mail?

13 A That's correct. I think that's a fair
14 statement.

15 Q We have one other interesting document from
16 about this time frame. It is an October 22nd,
17 1984 -- again, that puts it a little under a month
18 after the date of the extension agreement. This is a
19 note written to Jim McDougal from Hillary Clinton.
20 It says "I asked Security Bank to extend the note but
21 apparently my written request fell on deaf ears.
22 Enclosed is the latest notice demanding payment.

1 Will you please ask someone to take care of this for
2 us?"

3 A I am not laughing at what you are saying.
4 I am laughing at -- that's an interesting piece of
5 communication.

6 You know that's the first time I have ever
7 heard that or knew of that.

8 Q That didn't make its way into "Blood
9 Sport"?

10 A I don't remember that being in "Blood
11 Sport." It may be.

12 MR. IVEY: I think you will come to that.

13 BY MR. BARTOLOMUCCI:

14 Q I guess you don't have any personal
15 knowledge about it.

16 A No. No. I am just sitting here thinking
17 why she thought that it fell on -- that her request
18 to extend the loan would fall on deaf ears. The only
19 thing I can figure out there is that she did not
20 receive the extension agreement herself. You follow
21 what I am saying?

22 Q Sure.

1 A That it went somewhere else, maybe to the
2 governor's desk or whatever, I don't know. But it is
3 apparent to me that she has not seen the extension
4 agreement.

5 Q Or apparently she doesn't even know about
6 it. Since the agreement is dated 9/30/84 you would
7 think at least they would know it was in the works?

8 A Yes. I don't know how to react to that.
9 That's the first I ever heard of that.

10 Q Okay, moving on to a different time frame,
11 there's a -- we have a letter dated November 1st,
12 1985, so we have jumped forward about a year. It is
13 written by Marlon Jackson on Arkansas State Bank
14 Department letterhead. He signs the letter over the
15 title bank commissioner, and it is addressed to
16 Charles Campbell, the vice president of Security
17 Bank.

18 And it says "Dear Charles: I am enclosing
19 the extension agreement which Governor Bill Clinton
20 signed yesterday. It is my understanding that Jim
21 McDougal, a close friend as well as business
22 associate of Governor Clinton, is to forward to you a

1 check for \$2322.42 representing the interest due on
2 the note. In discussing this matter with Jim today
3 via telephone, he indicated that he intended to make
4 a 4- or \$5000 principal reduction in addition to the
5 interest payment. After making the appropriate
6 approval of the extension agreement, please return
7 the appropriate copy to me and I will personally
8 deliver it to Governor Clinton.

9 "Also, please return copies of the receipt
10 to me so that Jim McDougal may know that the proper
11 credit has been given. Please provide Jim with a
12 copy of the receipt for the payment of the interest
13 and principal along with a copy of the extension
14 agreement. I trust that this meets with your
15 approval and that it will soon remove the note from
16 the past due list. Sincerely, Marlon Jackson."
17 That's the whole letter.

18 And I guess the question I have for you, is
19 it -- do you think it is proper for the bank
20 commissioner to be essentially requesting that the
21 vice president of Security Bank approve an extension
22 agreement and participate in the handling of this

58

1 loan taken out by the governor?

2 A I guess the best way I could answer that is
3 if I were bank commissioner, I would not have done
4 that.

5 Q And you would not have done that out of a
6 sense that it might be improper?

7 A No, not necessarily. That for me -- I
8 don't think it is improper for the bank commissioner,
9 if requested, to try to facilitate a routine bank
10 transaction. In and of itself, I don't think that's
11 improper.

12 What I am saying that if I were bank
13 commissioner, I would not have written the letter,
14 nor would I have -- I just wouldn't have done that.
15 I mean -- I can't really comment on that. I mean
16 I -- I wouldn't have done that.

17 Q Are you aware of any other instances in
18 which Marlon Jackson as bank commissioner interceded
19 on behalf of a borrower at the bank with an officer
20 of the bank?

21 A I don't have a copy of that letter in front
22 of me. In other words, I can't -- my memory is not

1 quite good enough to remember it. Was the slant of
2 the letter that he was interceding or was the slant
3 of the letter that he was just facilitating.

4 Q Well, let me reread a couple of portions of
5 it.

6 A Okay.

7 Q "Dear Charles, I am enclosing the extension
8 agreement which Governor Bill Clinton signed
9 yesterday."

10 A Okay, now, could we pause there a minute?

11 Q Sure.

12 A What that implies to me is that the
13 extension had already been approved. You follow me?
14 "I am enclosing the extension agreement."

15 Q True that --

16 A Okay, okay, that's why I said was he just
17 facilitating a transaction or was he trying to
18 influence the bank to make a decision? That first
19 sentence seems to say to me that the decision had
20 already been made.

21 Q Well, let me read you the fourth paragraph
22 down. I read this before, but before I had read the

60

1 whole thing. The fourth paragraph says, "after
2 making the appropriate approval of the extension
3 agreement, please return the appropriate copy to me
4 and I will personally deliver it to Governor
5 Clinton." I think that implies that it hadn't been
6 approved yet and sort of requests or even -- more
7 than that, almost directs that approval be made;
8 doesn't it?

9 A Well, first of all, I don't think the
10 governor would have been in possession of the
11 extension agreement, if the -- that's my point in
12 this.

13 I am not trying to protect anybody. You
14 need to understand that. I am just trying, as I've
15 done all the way through this testimony, to be fair
16 and to try to be factual.

17 If the governor were already knowing bank
18 procedures, if the governor were already in
19 possession of the extension agreement, it would not
20 have been sent to him had it not already been
21 approved. I just don't believe that.

22 Now -- and I understand what you are

1 saying, because down in that last paragraph, it seems
2 to say, when you approve this, my point is that it
3 had already been approved, from what I can gather,
4 because he wouldn't have the extension agreement in
5 the first place. I mean, keep in mind this is the
6 first time I've heard of this letter.

7 Q It is possible, isn't it, that Mr. Jackson
8 had a blank copy of the extension agreement, and had
9 the governor fill out his portion of it, and then
10 sent it for the first time to Mr. Campbell with a
11 request to sign off on it?

12 A I guess that's possible. I think you would
13 have to ask Mr. Jackson about that.

14 Q Well --

15 A Or had you asked him about it?

16 Q We have interviewed Mr. Jackson. I am not
17 sure exactly what response he gave, frankly.

18 A Okay.

19 Q And we will be talking to Mr. Campbell.
20 But on the assuming that the extension agreement had
21 not already been approved by Mr. Campbell or anyone
22 else at the bank, and that Mr. Jackson was forwarding

62

1 the agreement with an initial request for its
2 approval, and doing so as bank commissioner on
3 official letterhead, you would have a problem with
4 that; right?

5 A If I were the bank commissioner, I would
6 not have done that. I would not have written the
7 letter. I wouldn't have used bank department
8 stationery. I mean I just -- that's just me. I mean
9 I -- I am interested not only in propriety, but the
10 appearance of propriety as well. You follow what I
11 am saying?

12 Q I do, and I just want to note for the
13 record that the date on this, November 1st, 1985 is
14 after the point at which you stepped down as chairman
15 and president.

16 A Well, no, I was still chairman.

17 Q You were still chairman. You are no longer
18 president and CEO of the bank.

19 A That's correct. May I add one think to
20 that.

21 Q Sure.

22 A The approval of the extension agreement,

1 was -- as I recollect about loan authority at that
2 time was totally within the loan authority of
3 Mr. Campbell. In other words, it didn't have to go
4 to a committee or it didn't have to have any other
5 approvals. It was within his loan authority, as well
6 as the original loan was within his loan authority.

7 So there is no reason for anyone else in
8 the bank to be involved in the decision. I might
9 also add that that extension agreement would probably
10 be a slam dunk. In other words, that wouldn't be a
11 hard decision. That would be an easy decision.

12 In other words, if -- and I emphasize "if"
13 because I have known Marlon Jackson for a long time
14 and I have never witnessed him involved in any kind
15 of impropriety -- if he were trying to influence the
16 loan officer, there was no reason to. I mean, the
17 loan officer had an easy decision there. I don't
18 think they were -- they were making payments on the
19 loan. These were two very busy people, two very busy
20 people that were hard to get together at the same
21 time apparently because they let the thing get past
22 due. And if you read "Blood Sport," you know that

1 there was -- I think about that time, this seemed to
2 be some tension rising between the Clintons and the
3 McDougals or at least between Hillary and McDougal.
4 That might have had something to do with it. I don't
5 know.

6 MR. IVEY: Don't give that one too much
7 credence.

8 THE WITNESS: I don't know. I mean I
9 really don't know.

10 MR. BARTOLOMUCCI: We can all read "Blood
11 Sport" and maybe we will get a chance to hear from
12 the McDougals and draw our conclusions on that later.

13 BY MR. BARTOLOMUCCI:

14 Q To be clear on one thing, as of November
15 1st, 1985, Marlon Jackson would have had no official
16 position at the Security Bank; correct?

17 A He had no official position at the Security
18 Bank since April of 1983.

19 Q Right, he was the bank commissioner.

20 A I think he was bank commissioner for about
21 four years, as I recall, till maybe sometime 1987 or
22 '88. Maybe it was five years.

1 Q Well, there -- this loan goes on through
2 1988. Since -- since you went up to the holding
3 company, in 1985, I -- I am not sure that you will
4 have a lot to add about the various and sundry events
5 and documents that occur hereafter.

6 A I can tell you the first time I thought
7 about the loan since 1984, I guess, since I signed
8 that extension agreement, was 1992 or '93, might have
9 been '94. It was two or three years ago. I was
10 sitting in my living room with my wife watching the
11 evening news at 6:00 and the local TV station comes
12 on with their lead story and it says, "local bank
13 connected to Whitewater," and it showed a picture of
14 Security Bank in Paragould. My wife will tell you
15 that I came unglued in terms of irresponsible
16 reporting. That was the first time that I had ever
17 thought about that loan since '84 or '85.

18 Q Let me just ask you some more -- a few
19 minor questions. One extension agreement I am
20 looking at, there is a box where it says "dealer."

21 A Says what?

22 Q "Dealer."

1 MR. IVEY: Do you have a Bates number on
2 that or a date or anything?

3 MR. BARTOLOMUCCI: It is the extension
4 agreement that bears number 5116. That's not a Bates
5 number. That appears to be the number on the
6 extension agreement form.

7 This is the extension dated 10/11/85 for
8 the record.

9 BY MR. BARTOLOMUCCI:

10 Q But again, Mr. Oldham, there is a box that
11 asks -- that says "dealer," d-e-a-l-e-r, and it has
12 some initials in it.

13 Who would the dealer be with respect to an
14 extension agreement?

15 A Dealer?

16 Q Do you know what that term means?

17 A No. You know when you use that term, I
18 think car dealer.

19 Q It is a term from your form so --

20 A Yes, what's the date on that form? Was it
21 on the first -- was it on the form I signed?

22 Q There was a box for it. It wasn't filled

1 in.

2 A Okay.

3 Q I will tell you it is in a series of boxes
4 that read "class," "note number" --

5 A I'm sorry?

6 Q There are a series of four boxes that read
7 "class," "note number," "orig date," and then the
8 fourth box is "dealer," and this has the initials
9 SG/TH. Does that help you any?

10 A No, it really doesn't. The only thing that
11 I can think that that might be, would be the initials
12 of the note clerks that inputted the -- that inputted
13 the document into the computer system. But I don't
14 understand the box called "dealer." I mean, I don't
15 know what that is.

16 Q Okay, referring you to this same extension
17 agreement, the one dated 10/11/85, the line labeled
18 "approved by" has some initials that appear to read,
19 something like JG. Do you know who that might be?
20 It could also be a JS, maybe.

21 A A JG?

22 Q Yes, that's my --

68

1 A Or an SG.

2 Q It could be an SG?

3 A If it were an SG, you know, I'd kind of
4 like to see it. If I could see it, I could help you
5 more.

6 Q We are trying to save the taxpayers some
7 dollars by --

8 A You could fax it to me. If it says SG --
9 what's the date on it?

10 Q 10/11/85.

11 A It is probably -- if it is SG, it is
12 probably Steve Gramling, G-r-a-m-l-i-n-g.

13 Q If it is JG, do you know who that would be?

14 A JG?

15 Q Yes.

16 A JG. I am thinking. Just a second. JG,
17 no, I don't know who it would be if it is JG. If it
18 is SG, I am virtually certain it is Steve Gramling.

19 MR. BARTOLOMUCCI: We are going to pause
20 for one second while the court reporter changes tape
21 here.

22 (Discussion off the record.)

1 MR. BARTOLOMUCCI: Back on the record.

2 Q As of October of 1985, Steve Gramling would
3 have been someone with authority to approve an
4 extension agreement?

5 A I think so. I think that's about the time
6 he went into lending.

7 Q Do you know where Mr. Gramling is now?

8 A He is president of that same bank, that is
9 now Union Planters Bank of Northeast Arkansas.

10 Q So, the Security Bank of Paragould is now
11 the Union Planters Bank of Northeast Arkansas?

12 A That's correct. It was acquired almost two
13 years ago.

14 Q I am just trying t see if there is anything
15 else I want to ask you from these later forms. We
16 have a later personal financial statement from the
17 Clintons dated March 24, 1987, which, in the asset
18 section, it lists \$50,000 in real estate equities,
19 and then the form says, "see schedule C," and I take
20 it your supposed to spell that out in schedule C.
21 Schedule C, however, on the next page is blank, is
22 not filled in.

70

1 I take it there is nothing overly
2 remarkable about that?

3 A Well, now, where it says "see schedule C,"
4 is that in their handwriting or is that printed?

5 Q No, it is printed. It is part of the
6 form. That's part of the form.

7 A No, that's not necessarily that unusual,
8 particularly when you've got that small amount in
9 there.

10 If you look over there, at -- if I can
11 recall those financial statement forms right, if you
12 look over on the back where it says "schedule C," you
13 will see that it is a multiline deal.

14 Q Yes.

15 A And if there was more one piece of property
16 then that's when schedule C would be filled out with
17 you. If it is only one piece of property, it is not
18 uncommon that it would not be filled out, although my
19 preference would be that it be filled out.

20 Q Although schedule C calls for a number of
21 pieces of information?

22 A Exactly. That's what I said, what I just

1 said. My preference as a banker would be that that
2 be filled out in detail. I would want to know what
3 that real estate was.

4 MR. BARTOLOMUCCI: I think that may be all
5 I have for you, Mr. Oldham. Let me just check my
6 notes quickly.

7 THE WITNESS: Okay. May I ask a question
8 off the record?

9 MR. BARTOLOMUCCI: Sure, off the record.
10 (Discussion off the record.)

11 MR. BARTOLOMUCCI: Back on the record
12 here.

13 BY MR. BARTOLOMUCCI:

14 Q Last question, sort of a catch-all,
15 Mr. Oldham, is there anything else you want to add or
16 tell us that's occurred to you that might be of
17 interest to our investigation?

18 A No. I would just reemphasize that had I
19 been the loan officer, and had I received the
20 application that apparently the loan officer
21 received, that I would have made the loan, because
22 from all presentments, it was a good loan. As it

1 turned out, it was a good loan; it was repaid in full
2 and it was repaid within a reasonable period of
3 time.

4 It got apparently past due a couple or
5 three times, because of the various past due notices
6 that went out and the dates we've talked about in
7 this deposition. But I -- you know, when I look at
8 the file, I couldn't find anything wrong with the
9 loan. I am talking about legally wrong with the
10 loan, or for that matter, really technically wrong
11 with the loan, based on what I saw in the file.

12 Q I just thought of a question I would like
13 to ask you.

14 Have you thought of any communications
15 about this loan with Mr. Campbell, Mr. Fisher or
16 Mr. Jackson?

17 A I have talked with Mr. Fisher, not
18 specifically about any details of the loan, and I
19 have talked with Mr. Campbell, but not any details,
20 any specific details about the loan. He doesn't have
21 any loan documents. I don't have any loan
22 documents.

1 When we all three got telephone calls about
2 we were going to be deposed, I think it surprised us,
3 and I think they were surprised as well as I was
4 surprised. But there was no detailed discussion. I
5 mean, there is nothing for me and I don't believe
6 there is anything for Charles Campbell or Bill Fisher
7 to hide. Those guys are -- I have known them both
8 for 20 or 25 years. They are honest. They have a
9 lot -- they have total integrity as far as I'm
10 concerned in all my dealings with them.

11 MR. BARTOLOMUCCI: Let me add we certainly
12 didn't mean to imply at all if we did that you were
13 hiding anything. I think you have been very helpful
14 and forthcoming today.

15 THE WITNESS: If I was not supposed to have
16 talked with them, or at least said did you get a call
17 from the Senate Whitewater committee, I would not
18 have, if you had advised me of that.

19 MR. IVEY: There is nothing wrong with you
20 talking. The inquiry is simply aimed at finding out,
21 if there have been any communications, what they are.

22 THE WITNESS: There were just general

74

1 communications. My concern was, when this first came
2 up, was my inability to recollect much about it. And
3 my attitude is, I want to be helpful. And if you
4 can't recollect much about something you can't be
5 very helpful, and perhaps these guys can refresh
6 memories. But they weren't very helpful either,
7 quite frankly.

8 MR. BARTOLOMUCCI: We will find out soon
9 enough. At this point I will turn the show over to
10 Mr. Ivey. Do you need to take a break before we do
11 that?

12 THE WITNESS: No, I am fine. I have been
13 sitting here drinking a Styrofoam cup of coffee, so I
14 may need to take a break soon.

15 MR. IVEY: Why don't we take it now.

16 (Recess.)

17 EXAMINATION

18 BY MR. IVEY:

19 Q Let me go back through a couple of things
20 that were raised previously, Mr. Oldham. I don't
21 think it will take much time --

22 A Take whatever time you like.

1 Q Okay. I appreciate it.

2 A We work late in the day here and you are
3 too. It is not a problem.

4 Q I wanted to ask you about the extension
5 agreement that you signed.

6 A Yes, sir.

7 Q I know you can't see it, but I take it you
8 took a look at it not too long ago?

9 A Well, it's been -- I was just trying to
10 remember when I did go over there. I would say it's
11 been a year ago would be a rough guess.

12 Q Let me read some part to you and ask you
13 some questions about it. The document I have here
14 for the record has a Bates stamp on it, SBP 0075.
15 Now, this is an agreement that is from September 30,
16 1984 to September 30, 1985. Is that consistent with
17 your recollection?

18 A Yes, that's correct. Actually, my
19 recollection, I couldn't remember exactly what the
20 period of time was. I just -- that was originally in
21 the file that I looked at, but I didn't make any
22 notes. I just flipped through there and saw it.

1 Q Okay. Now, would a one-year extension be
2 typical of banking practice at your bank there?

3 A Not only at my bank, but I think of all
4 well-run banks in Arkansas at that time because of
5 the usury law that I referred to before. There is
6 nothing unusual about a one-year extension. There is
7 nothing unusual about a 20- or \$25,000 loan that
8 might have four or five extensions on it before it is
9 paid off.

10 Q That was my next question. The amount
11 extended in that box is \$18,800. Nothing startling
12 about that to you, either?

13 A No, sir.

14 Q Okay, and then, as we move across this
15 document, it's got "annual percentage rate, previous"
16 it has written down "13-1/2," and "current," looks
17 like "11.0," although there is some scratch-outs, but
18 would either of those interest rates strike you as
19 unusual in any respect for that time period?

20 A No.

21 Those both were probably -- and I say
22 "probably" because I haven't looked back to see what

1 the Fed discount rate was during that period of
2 time -- but both of those were probably the maximum
3 the law allowed.

4 Q All right.

5 MR. BARTOLOMUCCI: Just to help out my copy
6 looks like the second figure is 11-1/2.

7 THE WITNESS: Okay, so probably what -- and
8 I say probably because I don't have any documentation
9 in front of me, but probably the Fed discount rate
10 when the loan was made was probably 8-1/2, and when
11 it was extended it was probably 6-1/2 so, see, five
12 over it would be the maximum.

13 BY MR. IVEY:

14 Q All right, and you mentioned also that this
15 is not the only extension agreement you signed but
16 you signed others when perhaps a loan officer was not
17 available or on vacation or something of that sort?

18 A Right.

19 Q So the fact that you signed this was not
20 connected to the fact that this was a loan to Bill
21 Clinton?

22 A No.

1 Q All right.

2 A No. It is obvious the loan officer was not
3 there or he would have signed it. But, the fact that
4 it was a loan to the governor might be the reason it
5 made it to my office. You follow what I am saying?

6 Q Yes, sir.

7 A Because there is a note clerk down there
8 looking at that and it says Governor Bill Clinton, he
9 might be disposed to bring that to the president of
10 bank rather than taking it to another loan officer, I
11 don't know. But it was not unusual in the absence of
12 the loan officer for me to initial or sign an
13 extension agreement.

14 Q Well, to the best of your knowledge, did
15 this loan receive any type of special treatment
16 either in terms or amount or in the way that it was
17 handled, due to the fact that it was a loan to the
18 Clintons?

19 A To my knowledge, no. In fact, I think
20 there would have been some extra scrutiny or special
21 care taken to not only do the appropriate thing but
22 to eliminate any appearance of impropriety because it

1 was a loan to the Clintons.

2 Q I see. I see.

3 A I suspect you can line up under oath all 65
4 employees over there and I think they would all tell
5 you at that time that we did our best to live by the
6 letter of the law, and when in doubt, err in favor of
7 the law. That's the only way to run a bank.

8 Q Yes, sir.

9 Let me ask you quickly about the financial
10 statements. I think you were asked about a financial
11 statement that was submitted to your bank, and at the
12 top of that statement is Bank of Cherry Valley and I
13 think you testified that it was not unusual to
14 receive a financial statement from another
15 institution if the financial statement was less than
16 a year old.

17 A It is not unusual for the same financial
18 statement to be used at more than one financial
19 institution. And an individual borrower might use as
20 their financial statement a financial statement form
21 that they had actually been given by another
22 financial institution.

80

1 Now, I will tell you that in, I will call
2 it modern day practices, we do ask everybody to fill
3 out their financial statement on our forms, even
4 though they may sit there and copy it off another
5 form from another financial institution. It is just
6 a personal preference. We would rather have our
7 forms in the file because our forms might differ a
8 little bit in structure or the questions they ask
9 than some other financial institutions's forms. They
10 are not standardized, I guess is what I am trying to
11 say.

12 Q Yes, sir. But during this period, 1983,
13 there was nothing unacceptable about --

14 A No, sir. There was nothing unacceptable
15 about that at all.

16 Q And for the record, the forms I have are
17 Bates stamped SBP 0065, and SBP 0069. I believe
18 those are the same forms that Mr. Bartolomucci was
19 referring to earlier.

20 Okay. Let me ask you about the letter that
21 was sent from the Arkansas -- well, it is on
22 letterhead for the Arkansas State Bank Department

1 with a signature from Marlon D. Jackson to Charles D.
2 Campbell. Do you recall questions about that a few
3 moments ago?

4 A I remember the discussion about whether the
5 extension agreement had been approved prior to the
6 letter being written or whether the letter was a
7 request or a directive to approve the extension
8 agreement.

9 Q Yes, sir.

10 And for the record, the document I have is
11 Bates stamped DKRT 100405. And I believe it is the
12 same document that was discussed earlier.

13 Now, you noticed when it was read earlier
14 that the line at the beginning, "I am including the
15 extension agreement which Governor Bill Clinton
16 signed yesterday," and I think your testimony was
17 that that might lead you to conclude that this letter
18 was not pressing for an extension but that the
19 extension had already been approved?

20 A That's what that sentence would make me
21 think if I -- you know, if I was sitting there
22 reading the letter and I read that sentence, I would

1 say, yes, the answer to your question, yes.

2 Q Yes, sir. Now I think you also mentioned,
3 too, that you and Mr. Jackson are good friends?

4 A Yes, we are.

5 Q Do you think if he wanted to -- well, he
6 didn't contact you about Mr. Clinton's loan at all?

7 A Not that I can recall.

8 Let me tell you, Mr. Jackson and I have an
9 agreement when he left to be bank commissioner, and
10 we were both stockholders of that bank, and our
11 agreement -- I can sum it up as follows: He was
12 going to go be bank commissioner and I was going to
13 run the bank and he was not going to attempt to
14 interfere in my running the bank.

15 If it had been otherwise, I would not have
16 agreed to be the chairman, president and CEO of that
17 bank, quite frankly, and I must tell you that, that
18 the entire time he was bank commissioner he never
19 tried to influence me.

20 In fact, in fact we didn't talk very
21 frequently at all. We would go two, three months at
22 a time and never see each other or talk to each

1 other, and when we would see each other it would be
2 in a social setting somewhere. As far as his
3 relationship with me was concerned, while he was bank
4 commissioner, I never saw anything of a -- of an
5 out-of-the-ordinary or incorrect nature, as far as I
6 was concerned, out of him. I saw no impropriety
7 whatsoever.

8 Q Did you know Charles D. Campbell?

9 A Yes, he worked for me for 10 years.

10 Q Did you speak with Mr. Campbell on a
11 frequent basis back in November of 1985?

12 A Well, I would see him every day I was at
13 work and every day he was at work. I probably see
14 him at least once, maybe two, three times a day.

15 Q Did he ever come to you and tell you he
16 thought Mr. Jackson was trying to in some way
17 improperly influence him or pressure him with respect
18 to the performance of his duties as vice president of
19 Security Bank?

20 A No, none whatsoever.

21 Q Do you think that's something he would have
22 come to you about, if that had in fact been the case?

1 A Yes, I do. I think if he had been
2 concerned about that, he would have come to me.

3 Q I wanted to -- I know that you have a bank
4 to run and you were probably working today, but this
5 same issue came up today at the hearing and I wanted
6 to read a piece to you from Mr. Jackson's testimony
7 because it was read earlier today.

8 I guess the construction of it is that he
9 said that he had not intended to have this letter put
10 on letterhead from the state bank department, that it
11 was some sort of a mix up with his secretary. He
12 dictated the letter, and she was authorized to sign
13 it on his behalf. And she did. And he didn't send
14 it himself.

15 Would that be sort of consistent with your
16 reluctance to --

17 MR. BARTOLOMUCCI: How is he supposed to
18 know that?

19 THE WITNESS: How am I supposed to know
20 what?

21 MR. BARTOLOMUCCI: Whether that's what
22 happened? Are you asking him whether that's actually

1 what happened? In terms of the circumstances of
2 Mr. Jackson writing the letter?

3 MR. IVEY: No, I don't think that was going
4 to be my question.

5 MR. BARTOLOMUCCI: I'm sorry, then.
6 Go ahead.

7 MR. IVEY: Could you read back where I
8 was.

9 (The reporter read the record as requested.)

10 BY MR. IVEY:

11 Q Let me phrase it this way. Am I correct in
12 my understanding of your testimony, that to the best
13 of your knowledge, Mr. Jackson didn't do anything
14 improper with respect to trying to influence
15 Mr. Campbell or anyone else, to your knowledge, at
16 the bank with respect to this loan to the Clintons?

17 A To my knowledge, Mr. Jackson kept total
18 hands off during the entire time he was bank
19 commissioner. If it had been otherwise and I had
20 learned of it, I would have been livid. It was my
21 understanding with him and the condition under which
22 I took the job that he be bank commissioner and I be

1 CEO of that bank.

2 We have that kind of relationship. We have
3 been friends and -- for a long time, but we have also
4 been very candid friends with each other, and I think
5 that's probably the secret to the longevity of our
6 relationship.

7 MR. IVEY: If I could have just a moment.
8 I want to -- I think I may be done but I want to
9 review my notes to be sure.

10 THE WITNESS: I might add a comment,
11 listening to the excerpt, in the sense of trying to
12 be helpful, the excerpt of the testimony you read
13 today.

14 MR. IVEY: Yes, that I referred to earlier.

15 THE WITNESS: Yes, it is about
16 Mr. Jackson. He tends to live with a Dictaphone in
17 his hand. You have actually received letters from
18 him, that would say up at the top "dictated, certain
19 date," but the letter would be dated 10 days later or
20 something, which would indicate to me that that
21 secretary had a week's backlog of dictation. I mean
22 this guy, a dictation machine is a dangerous weapon

1 in his hands.

2 MR. IVEY: I think he did mention she was
3 overworked from the typing in his deposition.

4 THE WITNESS: He also has a tendency, if
5 you ask him what time it is, he will tell you how the
6 watch was made, which sometimes wears a little thin
7 on me, but he is aware of that, and I am not saying
8 anything to you that I haven't said to him.

9 MR. IVEY: Yes, sir.

10 BY MR. IVEY:

11 Q With respect to this notation on the
12 extension agreement, "loaded 12/27/84"?

13 A Yes, sir.

14 Q Is it fair to say with respect to that
15 date, 12/27/84, it is not clear to you that that --
16 the date indicates when this document was entered
17 into your computer system?

18 A I think that's what that date indicates.
19 That's the only think that makes any sense to me.

20 Q All right, but you are not exactly sure
21 when the extension agreement would have been
22 received?

1 A Well, I would say generally they are loaded
2 at least within a day or two after they are received,
3 and my -- my hope would be they are loaded the day
4 they are received but the practicality of the matter
5 is, that sometimes there might be a backlog a little
6 bit and since those -- since you don't lose interest
7 anyway, in other words, since you go back to the
8 original date of the extension agreement, it doesn't
9 really make any difference in terms of collecting the
10 interest.

11 MR. IVEY: All right.

12 I have nothing further at this time.

13 MR. BARTOLOMUCCI: Mr. Oldham, I don't
14 think I have any follow-up questions, so we will
15 thank you for your time and cooperation.

16 THE WITNESS: Absolutely. I am glad to do
17 it, and sincerely -- I know you will -- but I want to
18 emphasize, that if you have any further questions,
19 feel free to call me. I will did whatever I can to
20 help clarify anything that I have knowledge.

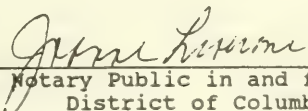
21 MR. IVEY: We appreciate that.

22 MR. BARTOLOMUCCI: Thank you very much.

1 MR. IVEY: Have a good day.
2 (Whereupon, at 5:35 p.m., the deposition
3 was concluded.)
4

5 -----
6 FRANK W. OLDHAM, JR.
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I, JOANNE LIVERANI, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires

JULY 31, 2000

**DEPOSITION OF
GEORGE EMERSON CAMPBELL
IN RE: S. RES. 120**

FRIDAY, APRIL 26, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of GEORGE EMERSON CAMPBELL, called for examination pursuant to notice of deposition, at 2:15 p.m. in Room 640-A of the Hart Senate Office Building, before JOANNE LIVERANI, a Notary Public within and for the District of Columbia, when were present:

MICHAEL P. O'CALLAGHAN, Esq.
Majority Associate Special Counsel
MITCHELL FEUER, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

RONALD M. CLARK, Esq.
The Rose Law Firm
120 East Fourth Street
Little Rock, Arkansas 72201

ALDEN L. ATKINS, Esq.
Vinson & Elkins, L.L.P.
The Willard Office Building
1455 Pennsylvania Avenue, NW
Washington, DC 20004-1008
On behalf of the Deponent.

CONTENTS

WITNESS	EXAMINATION
George Emerson Campbell	
by Mr. O'Callaghan	5
by Mr. Feuer	57
by Mr. O'Callaghan	59
Errata	5376

P R O C E E D I N G S

MR. O'CALLAGHAN: Let's go on the record.

Good afternoon, Mr. Campbell. My name is Michael O'Callaghan. I am associate special counsel for the Special Committee. I represent the Majority. And with me today is Mitchell Feuer who is counsel for the Banking Committee. He will be representing the Minority today.

This telephone deposition is being conducted pursuant to Senate Resolution 120. The Resolution establishes a Special Committee administered by the Banking Committee to conduct an investigation involving Whitewater Development Corporation, Madison Guaranty Savings & Loan Association, Capital Management Services, Inc., the Arkansas Development Finance Authority, and other related matters.

This deposition is in advance of public hearings, which will take place next week. And there is a possibility that you may be asked to testify. If that happens, we will notify your counsel after the deposition.

4

We are going to ask you a series of questions today. Do you consent to being sworn via the telephone, Mr. Campbell?

THE WITNESS: Yes, I do.

MR. O'CALLAGHAN: At any time during the deposition, if you don't understand a question, please let me or Mr. Feuer know and we will be happy to rephrase them. Also, if you need a break at any time, let us know and we will be happy to accommodate you.

The stenographer is preparing a record of questions and answers. The deposition will be treated as Committee Confidential until commencement of the hearings. Prior to the hearings, you will be given an opportunity to review your transcript, if you are called to testify. And also, after the deposition, if you would like to get a copy of your transcript, to make note of any corrections for transcription on an errata sheet, you may do that as well.

You may be represented by counsel today. Are you represented by counsel?

1 THE WITNESS: Yes, I am.

2 MR. O'CALLAGHAN: Could counsel please
3 identify themselves; state your name and the name of
4 your law firm, please.

5 MR. CLARK: This is Ron Clark with the Rose
6 Law Firm.

7 MR. ATKINS: Alden Atkins with Vinson &
8 Elkins.

9 MR. O'CALLAGHAN: Objections to the form of
10 questions will be noted for the record. Counsel may
11 object on the grounds of privilege or relevance. And
12 the Committee Chairman may rule where the witness
13 refuses to answer the question.
14 Whereupon,

15 GEORGE EMERSON CAMPBELL
16 was called as a witness and, having first been duly
17 sworn, was examined and testified as follows:

18 EXAMINATION

19 BY MR. O'CALLAGHAN:

20 Q Could you please state and spell your full
21 name for the record, please.

22 A My first name is George, G-e-o-r-g-e; my

1 middle name is Emerson, E-m-e-r-s-o-n; my last name
2 is Campbell, C-a-m-p-b-e-l-l.

3 Q Mr. Campbell, are you aware of the
4 Committee's document request to the Rose Law Firm
5 with respect to documents relating to the Arkansas
6 Housing Development Authority and Arkansas
7 Development Finance Authority?

8 A Yes.

9 Q Did you participate in the search for those
10 documents?

11 A Its still going on, but, yes, I have
12 participated in it, to the extent of reviewing lists
13 and other things which I maintain.

14 Q Are you aware of any documents that were
15 previously under the possession or custody or control
16 of the Rose Law Firm or yourself that were responsive
17 to the request that have since been destroyed, lost,
18 or otherwise disposed of?

19 A I don't understand the question.

20 Q The question is, were there any documents
21 that at one time were in existence that were
22 responsive to the subpoena that have since been lost

1 or destroyed or no longer exist?

2 A I did not hear the word "since." When we
3 complete a transaction, we regularly dispose of
4 things that are no longer useful or useful for
5 reference. But, no, I am not aware of any document
6 which has been destroyed since receiving any kind of
7 request for it.

8 Q But in the normal course, documents are
9 thrown out after a certain period of time; is that
10 right?

11 A It varies. In bond transactions, we often
12 do not throw things out on a shorter cycle because we
13 get into refundings or questions come up, so the
14 principal controlling documents we retain for many
15 years.

16 The transactional documents,
17 correspondence, drafts, that sort of thing,
18 frequently will be destroyed after some period of
19 time when we run out of space.

20 Q Have you spoken with anyone, other than
21 your counsel, prior to this deposition about the
22 anticipated substance of the deposition?

1 A Yes, I spoke to Wooten Epes, who was the
2 president of the Arkansas Development Authority,
3 recently to refresh my recollection on a couple of
4 things having to do with time sequences.

5 Q What specifically did you speak to him
6 about?

7 A The drafting of the ADFA legislation.

8 Q Anything else?

9 A I think I asked him about what kind of
10 questions you asked him.

11 Q And did he tell you?

12 A Briefly. It was a short conversation.

13 Q How long was the conversation?

14 A 10 minutes, perhaps.

15 Q Other than conversations about the drafting
16 of the ADFA legislation, the type of questions he was
17 asked in his deposition before the Committee, did you
18 discuss anything else?

19 A Well, we are engaged in an ongoing
20 transaction right now. We talk to each other on a
21 daily basis with respect to a bond issue that ADFA is
22 going to close next Monday and Tuesday. If you mean

1 did I ask or did I talk to him or something about
2 your inquiry or your Committee's inquiry, no.

3 Q And were you able to review any documents
4 in preparation for the deposition, prior to the
5 deposition?

6 A I didn't understand the first part of your
7 question.

8 Q I'm sorry. Did you review any documents to
9 prepare for the deposition?

10 A I pulled out of our file -- out of our
11 library stack the transactional volumes, the
12 transcripts on those bond issues of the Housing
13 Development Agency, and the Development Finance
14 Authority, which were on a list which Mr. Atkins
15 faxed to me, sometime within the last week, which
16 appears to come from some document, that I've never
17 seen.

18 MR. ATKINS: For the record, that's a
19 document faxed to me by your colleagues,
20 Mr. O'Callaghan, faxed to me by Mr. Giuffra.

21 MR. O'CALLAGHAN: And that was a list to
22 help you help identify issues that Rose worked on; is

10

1 that right?

2 MR. ATKINS: It was a list sent to me to
3 aid in reviewing documents that would be responsive
4 to your subpoena.

5 THE WITNESS: And I think, Mr. O'Callaghan,
6 when you and I first talked a week or 10 days ago,
7 whenever it was, about this deposition, you told me
8 that you were going to send me a list. And when I
9 got this from Alden, I assumed that was the list you
10 were going to send me.

11 BY MR. O'CALLAGHAN:

12
13

14 Q What is your present employment?

15 A I am member of the Rose Law Firm, a
16 professional association, 120 East Fourth Street,
17 Little Rock, Arkansas.

18 Q What's your present position there?

19 A Well, I'm a stockholder. We use the title
20 member; I am a senior member.

21 Q How long have you been at the Rose Law
22 Firm?

1 A I commenced my employment here January 5,
2 1960 -- excuse me, July 5, 1960.

3 Q During the period January 1982 through
4 October 1986, what was your position at the firm?

5 A The same as I have just described it.

6 Q You were a senior member?

7 A Yes. Well, let me qualify that by saying I
8 have been a senior member ever since the category
9 existed. I can't remember when we created the
10 distinction between member and senior member, but I
11 think it was perhaps before 1982. I honestly can't
12 remember.

13 Q Okay. How is the structure of the law firm
14 set up with regard to members and senior members, and
15 what other classifications are there?

16 A Well, briefly, there are two
17 classifications, one requires a larger majority to
18 expel a member.

19 Q Is being a senior member akin to being a
20 partner at another firm? Is that --

21 A Roughly translates to that, yes.

22 Q Are you familiar with the Arkansas

1 Development Finance Authority and its predecessor,
2 the Arkansas Housing Development Agency?

3 A Yes.

4 Q How are you familiar with it?

5 A I was their first bond counsel, that is the
6 Arkansas Housing Finance Agency, or AHDA, Arkansas
7 Housing Development Agency. I did their first bond
8 issue in May of 1978, and have worked with them and
9 the Finance Authority since its creation in 1985, as
10 bond counsel or underwriter's counsel on some
11 transactions. And in a few cases, as what we label
12 as issuer's counsel, that is counsel directly to the
13 authority, but without the responsibility of
14 delivering an approving opinion with respect to
15 bonds.

16 Q Have you ever served as tax counsel?

17 A Special tax counsel?

18 Q Yes, sir.

19 A Not that I recall.

20 Q Has the firm ever acted as special tax
21 counsel?

22 A To anyone or to --

1 Q To AHDA or ADFA.

2 A Not to my knowledge.

3 Q To the best of your knowledge -- of course,
4 all these questions are based on the best of your
5 knowledge -- but what criteria were used by AHDA and
6 ADFA to select financial firms to provide
7 underwriting services for their bond issuances? And
8 this is, once again, the period '82 through '86.

9 A My observation was that they submitted
10 requests for proposals, for underwriters. I can't
11 tell you that I ever read one because I was never an
12 underwriter, nor was I ever asked to advise with
13 regard to the form of the proposals.

14 Q Okay. Were these requests for proposals
15 sent out to both firms anticipated to be lead and
16 co-managing underwriters?

17 A I would have no idea.

18 Q Was there ever any discussion of the
19 criteria that AHDA or ADFA used during any of the
20 board meetings that you attended?

21 A I do not recall any discussion in terms of
22 questioning the written provisions of the -- of the

1 thing, that is of the request for proposals. In the
2 last six months, there was a committee -- I say in
3 the last six months, sometime surely in the last
4 year, there was a committee appointed to look at
5 their proposal procedures again, but you will have to
6 be more specific. I don't really understand the
7 question.

8 Q Okay, I think you've answered it,
9 actually.

10 In the beginning of 1983, was there ever an
11 announcement made that AHDA was embarking on a new
12 policy to include more local underwriting firms in
13 its bond offerings?

14 A I believe I recall some newspaper articles
15 about it, but if you mean they sent out an official
16 statement or wrote letters or something, I am not
17 aware of having seen those.

18 Q Did you attend any board meetings where
19 that was done?

20 A I attended many board meetings over the
21 last 15, 16, 18 years, whatever we are talking about
22 here.

1 It is hard to be responsive to that
2 question directly, because I have no way of knowing
3 what kind of mail they sent out and to whom they sent
4 it.

5 Q Right now I am just asking about open
6 discussions during board meetings or special board
7 meetings.

8 A I don't recall any.

9 Q Okay. Are you aware of whether the
10 governor's office ever issued an official policy
11 on including more local underwriting firms in the
12 AHDA bond offerings?

13 A No. I am not aware of that. And there is
14 no reason I would be.

15 Q Was the Rose Law Firm ever hired to perform
16 due diligence reviews of the underwriting firms that
17 were chosen to do AHDA or ADFA bond offerings?

18 A Employed by whom?

19 Q By the Authority.

20 A Not specifically for that purpose. Now I
21 don't quite understand that. The normal position of
22 underwriter's counsels requires pursuit of due

1 diligence, but normally it relates to the entity
2 issuing the bonds, not the underwriter.

3 Q So you are not aware of an instance where
4 the Rose Law Firm was engaged to do a review of the
5 underwriters, and the status of the underwriters, and
6 their position in the market?

7 A No. Certainly I was not personally asked
8 to do that. I don't know what someone else might
9 have done, but I am not aware of it.

10 Q Okay. Do you recall when the firm of
11 Collins, Locke & Lasater first began participating in
12 AHDA bond offerings?

13 A I have had occasion to look at our retained
14 transcripts, and it was sometime in 1983, as I was
15 able to determine, the first issue in which I saw
16 their name as a cover page, official statement, was
17 in 1983. I am not sure when they were formed.

18 Q Okay. And did the Rose Law Firm do any
19 work with Collins, Locke & Lasater in connection with
20 bond underwritings for AHDA?

21 A We were underwriter's counsel on a number
22 of issues in which they were a member of the group.

1 Q Did you have any contact with anyone at the
2 firm?

3 A Not except seeing them at closing dinners.

4 Q How about during board meetings?

5 A Well, yes, typically all the underwriters
6 would have somebody at a board meeting just to show
7 the flag.

8 Q Was there one particular member of Collins,
9 Locke & Lasater that you recall attending board
10 meetings?

11 A Well, the only one who comes to mind is
12 Michael Drake. And I am not sure when he was
13 employed by them or what period of time. I know I
14 associate him with that firm.

15 Q Did you engage him in conversations during
16 board meetings?

17 A That's pretty impolite. I am sure I said
18 hello, but you mean -- I don't understand the
19 question. Did we speak to one another? Yes, we
20 spoke to one another.

21 Q With regard to any AHDA or ADFA bond
22 offerings where you acted as underwriter's counsel,

1 you said you would see people from Lasater & Company,
2 at deal closings.

3 Did you have any contact with them on a
4 professional basis during the course of an
5 underwriting, or the process to get ready for the
6 underwriting?

7 A None that I recall. They were never lead,
8 and typically, the lead underwriter manages the
9 operation, and you deal exclusively with the lead's
10 personnel.

11 Q What was the basic role of the co-managing
12 underwriters on these deals if you could give me a
13 brief description?

14 A As I observed it, they were participating
15 in the selling group, and tried to market the bonds.

16 Q During the period '83 through '86, did you
17 have any knowledge of what the structure was of the
18 Collins, Locke & Lasater or Lasater & Company
19 underwriting departments?

20 A No.

21 Q During the course of the different board
22 meetings that you attended, AHDA and ADFA board

1 meetings you attended over the course of the time
2 since you have been doing work with the agency, with
3 regard to the different issues that you have had
4 exposure to, you said there was a process to send out
5 requests for proposals?

6 A I'm afraid you are going to have to ask
7 that question again. I didn't understand what it was
8 I was being asked.

9 Q The question probably wasn't phrased very
10 well. It was a little long.

11 What I am trying to find out is, with
12 regard to the selection of underwriting teams to
13 participate in the offerings, after requests for
14 proposals were sent out, what was the next step that
15 the Authority took?

16 A I was never part of it, and I didn't see
17 any of it happen. My understanding is that,
18 internally, a staff committee was appointed. They
19 looked at the proposals, made an evaluation and
20 recommendation to the board, and the board acted on
21 it.

22 Q Were those proposals usually presented or

1 noted during the course of board meetings?

2 A Again, observing from the gallery and not
3 seeing what was before the members of the board, I
4 understand that a sheet was provided which summarized
5 the staff recommendation, showed how they weighted
6 the various aspects, showed how they scored it, but
7 they did not announce the losers. They would
8 announce only their recommendations.

9 So I observed it more closely from the
10 question of proposals I had submitted, but I think
11 the underwriters were handled the same way. I never
12 asked to see my scoring. I suppose it is available
13 under the Freedom of Information Act. But they just
14 announced who was selected, not who was not selected.

15 Q During the time that -- with regard to your
16 experience in AHDA and ADFA offerings, did you ever
17 hear of a time when an underwriter was chosen without
18 submitting a proposal to be a member of the
19 underwriting group?

20 A Well, it is very hard for me to answer
21 that, because I never knew -- you know, I didn't
22 attend ever meeting they ever had. I would

1 frequently get phone calls from someone saying, we
2 have been selected to do this, we would like you to
3 be underwriter's counsel, can you do it. And we
4 would say, sure, and I wouldn't even know who was in
5 the group for days or weeks. So it is hard for me to
6 respond to that truthfully, other than to say that
7 occasionally I would be given a name to be added to a
8 group, or be told that somebody wasn't in the group.
9 And I never asked why and was never told why.

10 Q But weren't the groups that were going to
11 be chosen as underwriters announced at board
12 meetings?

13 A Well, in recent years, yes. I can't
14 honestly remember 14 years ago.

15 Q Okay. And this is asking you to go back a
16 couple of years, but do you have any recollection of
17 whether in the spring of 1983 that the Collins, Locke
18 and Lasater firm was added to an agency bond issuance
19 as a part of the underwriting team without having
20 prepared a proposal or made a presentation to the
21 AHDA board?

22 A I wouldn't have the slightest idea. I just

22

1 can't remember anything like that.

2 Q Was there also a member of your firm by the
3 name of James Fowler who also attended meetings?

4 A Yes, he was a partner or member here for --
5 well, he left very shortly after he was elected to
6 membership to become an underwriter, so I guess he
7 was here a period of about four years. And I can't
8 remember what those years were.

9 Q Do you recall whether you had any
10 conversations with him with regard to inclusion of an
11 underwriter that hadn't submitted a proposal to be
12 part of a bond issuance offered by AHDA?

13 A Not that I can remember.

14 MR. O'CALLAGHAN: I have to go off the
15 record for a quick minute. I will be right back.
16 Excuse me.

17 (Discussion off the record.)

18 BY MR. O'CALLAGHAN:

19 Q I have a document which I will identify for
20 you. It is a two-page document, on Stephens, Inc.
21 letterhead, dated April 28, 1983. And it is a letter
22 addressed to Charles Stout and signed by Gene

1 Wilbourn.

2 Mr. Campbell, are you familiar with anybody
3 by the name of Charles Stout?

4 A Yes, I remember at one time he was, I
5 think, a board member. I don't remember of which
6 entity.

7 Q And how about Gene Wilbourn?

8 A Yes, I know him.

9 Q This letter is addressed to -- the
10 salutation reads "Dear Chairman Stout." It begins
11 with "It is with regret that I must inform that you
12 Stephens, Inc. is withdrawing from the multifamily
13 housing issue to which we were recently selected as
14 co-manager along with Merrill Lynch Pierce, Fenner &
15 Smith, and T.J. Raney & Sons."

16 Do you recall Stephens, Inc. ever pulling
17 out of an underwriting syndicate in or around April
18 of 1983?

19 A I am not sure about the date. Did you say
20 multifamily?

21 Q Yes, sir. Yes, sir.

22 A Well, I don't know that I was involved in

1 any multifamily issues before 1985. What's the
2 reference to that issue?

3 Q There is a reference to the issue,
4 actually, in a copy of the board minutes which we
5 also have. And it just refers to a 1983 multifamily
6 issue and the April 19 board meeting. I will see if
7 I can get another reference for you. That's the most
8 specific reference I think I have to it.

9 It was a -- appears to be a multifamily
10 issue that was at least contemplated in 1983.

11 A The reason I raised that is that, to the
12 best of my knowledge, the only bond counsel ADFA has
13 ever had for multifamilies issues and the first one
14 we did was in 1985, did a series of FHA insured
15 deals. And I am not saying that something didn't
16 happen in 1983, but that seems like a strange date
17 from anything I know about.

18 Q Actually, we have a list of bond issues
19 that was prepared by the Arkansas Development Finance
20 Authority, produced to the Committee by Clinton's
21 attorney, Mr. Kendall, which identifies one
22 multifamily in 1981, and then additional one in '83.

1 I don't know if that helps you recall that or not.

2 A Well, I know we didn't do anything in
3 1981. And the first one that I recall is 1985. I
4 can't remember everything I ever did, but that's all
5 that I can remember.

6 Q Okay. Well, the question is with regard to
7 whether you have any recollection about Stephens,
8 Inc. pulling out of a proposed bond issue in and
9 around April of 1983, proposed multifamily issue is
10 what it was?

11 A The most accurate I can be is to say that I
12 heard some street talk about it. I don't know
13 anything about it personally.

14 Q Okay. I am going to read you another
15 excerpt from the April 28, 1983 letter from
16 Mr. Wilbourn to Mr. Stout. It is the fourth
17 paragraph, which reads, "A guiding principle of the
18 agency from its inception has been the requirement
19 that professional firms, including bond counsel and
20 underwriters, be selected on the basis of merit
21 through written and oral presentations. With the
22 exception of the most recent single family issue, the

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1 agency has seen fit to select only those underwriters
2 who had the most superior combination of credentials
3 which would benefit the agency, namely sufficient
4 capital to underwrite, strong sales capability,
5 in-house technical expertise, and the ability to make
6 a market in the agency's securities in the secondary
7 market.

8 "With this knowledge, Stephens, Inc.
9 responded to your invitation to propose as managing
10 underwriter of the multifamily issue. We were very
11 pleased to be selected as a co-manager and were
12 looking forward beginning work immediately. In the
13 meantime, subsequent to our selection, the board
14 decided, without discussion, to add to the
15 underwriting group a firm which did not submit a
16 proposal under the agency proposal procedures, which
17 invited individual firm proposals. Although it is
18 certainly the agency's privilege to appoint any firm,
19 we would invite you to investigate more carefully
20 whether the added company meets the standard of
21 capital, experience, sales capability, staff service,
22 and market support which have been the preference of

1 the board in all issues."

2 Then it goes on. "We are concerned that
3 such actions may be an indication of an erosion of
4 the independence of the board of directors which, if
5 publicly perceived, could only be received adversely
6 in the market. It is therefore with reluctance that
7 we withdraw from this issue. We are hopeful that
8 this action will not preclude us from participation
9 in future offerings of the Arkansas Housing
10 Development Agency assuming the selection is made on
11 merit and experience. It has been a pleasure to work
12 with you, the board of directors, and your excellent
13 staff. If we may ever be of service to you, we are
14 just down the street."

15 Does that help refresh your recollection as
16 to an instance where an underwriter was chosen
17 outside of the course of the normal agency
18 procedures?

19 A I am afraid you didn't understand my
20 response earlier.

21 Q Okay.

22 A I simply don't know anything about that.

1 All I know is that I heard it being talked about. I
2 have no knowledge of it before, during, or after.

3 Q Do you recall what you heard being talked
4 about it?

5 A That they got mad because Lasater was let
6 in on the deal.

7 Q Did you hear that Lasater was chosen
8 outside the course of the normal procedures of the
9 agency?

10 A I don't remember that was part of the
11 transaction. If my records are accurate, Stephens
12 was in three other deals with them in 1983 that I
13 worked on, so I just don't know what you are asking
14 about.

15 Q Did there ever come a time when Lasater &
16 Company ceased doing business with ADFA?

17 A I guess there must have. They are not
18 there anymore.

19 Q Did --

20 A I don't know when.

21 Q Was there a firm that succeeded Lasater &
22 Company?

1 A I don't know.

2 Q Are you familiar with a firm called United
3 Capital Corp.

4 A No.

5 Q Are you aware of whether there came a time
6 when ADFA determined that Lasater & Company or any of
7 its successors would not be allowed to bid on bond
8 offering underwriting contracts?

9 A No.

10 Q Do you have knowledge of what the fee
11 structures were for the underwriters on the deals
12 done by AHDA and ADFA?

13 A None that I recall. I may have in my file
14 in some isolated instances so-called price books that
15 were distributed after a transaction was concluded,
16 which gave general information on fees, a breakdown
17 between manager, sales allowances, rough idea of the
18 distribution of the bonds geographically, that
19 typical sort of information -- or that information is
20 typically provided to the issuer.

21 Generally speaking, it is not given to the
22 lawyers. The underwriters consider it kind of

30

1 proprietary. And it is -- in any event, if I got it,
2 I didn't pay any attention to it. But I know I have
3 seen some books.

4 Q Okay. Between -- rather, have you ever had
5 any interaction with anyone in the governor's office
6 with regard to ADHA or ADFA bond underwritings?

7 A No.

8 Q Are you aware of whether anyone in the
9 governor's office ever expressed to anyone on the
10 AHDA or ADFA board a preference for a particular
11 underwriter?

12 A No.

13 Q Are you aware of whether the governor ever
14 expressed a preference for any underwriters to any
15 members of the ADFA or AHDA boards?

16 A No.

17 Q What were the criteria used in choosing
18 legal counsel to represent the agency?

19 A I did not hear the first part of your
20 statement.

21 Q What were the criteria used in choosing
22 legal counsel to represent the agency?

1 A Well, I can't recite them to you verbatim.
2 They are modified from time to time, but typically
3 they send out their request for proposal, which
4 requests information, concerning your experience,
5 would you expect to work on a team, are you
6 available, do you have any conflicts, do you have any
7 problems with the legal concepts of the proposed
8 issue.

9 And prior to some change in the state law,
10 they used to ask you to quota fee and estimate your
11 expenses, but that's no longer an appropriate
12 question to ask.

13 Q At any time, did law firms submit proposals
14 in conjunction with underwriters or groups of
15 underwriters?

16 A The Authority has had -- at least in my
17 experience, I don't know if they've changed it in
18 recent years. But the last time I was involved in
19 one, they have had a policy of accepting a team
20 approach where an underwriter represents that it has
21 what they loosely call a proprietary product.

22 In some cases, an investment firm will have

1 spent a good deal of time developing the computer
2 expertise or the legal concepts or sold the rating
3 agencies on a particular structured financing. And
4 they present it to an agency with the understanding
5 that they can bring with them the other --

6 Q Hello?

7 A -- they have had experience in the
8 transaction. So yes, there are instances in which
9 people are employed without the submission of
10 proposals, but in my experience, it's only been in
11 the proprietary type transaction.

12 Q Did AHDA or ADFA engage in any of those
13 proprietary transactions?

14 A Several.

15 Q Did the Rose Law Firm act as legal counsel
16 to any of those transactions?

17 A One or two.

18 Q Do you recall which ones?

19 A I can't remember off the top of my head. I
20 think maybe the so-called HECAP Program, the Higher
21 Education Capital Asset Program, was one of those.
22 Let me look on my list and see how that's

1 identified.

2 Q Okay.

3 A Yes, it is a 1985 issue, December 30, 1985,
4 looks like 72,500,000 variable rate revenue bonds,
5 capital assets program. We were issuer's counsel in
6 that transaction. PaineWebber was the lead.

7 Q How were you chosen as issuer's counsel?

8 A My recollection is that I got a telephone
9 call from Bob Nash -- no, in '85, I guess that would
10 have been Wooten Epes.

11 Q Was it from someone at the agency, the
12 director, the president?

13 A Someone at the agency called me -- and it
14 might not even have been president, it might have
15 been Bill Wilson -- saying we are going to do this
16 financing that involves letters of credit and
17 conversion, and some other things like that.

18 We would like to have somebody looking at
19 it from solely our perspective. Would you be
20 issuer's counsel, something to that effect. I said
21 yes.

22 Q He called you directly?

34

1 A As compared with what?

2 Q Did he speak to anyone else at the firm
3 first, or just called you first?

4 A Well, not that I am aware of.

5 Q And how were -- did Lasater & Company also
6 participate in that issue?

7 A There were one, two, three, four, five --
8 there were five underwriters and Lasater & Company
9 was one of them; Stephens, Inc., T.J. Raney, George
10 K. Baum and PaineWebber.

11 Q I guess I am a little confused because you
12 said these type of --

13 A Excuse me, I was reading from the wrong
14 list. No, no, that's right, that's right, I had my
15 finger in the right place. That's correct.

16 Q We were speaking, just before we started
17 talking about this higher educational program bond
18 issuance, about instances where underwriters and
19 legal counsel teamed up to do a proprietary
20 transaction; is that right?

21 A Yes.

22 Q And you said you were approached by the

1 Authority to act as counsel to the issuer; is that
2 right?

3 A That's correct.

4 Q And the Authority was the issuer?

5 A Yes.

6 Q Now, were you brought on as an issuer with
7 the team of the underwriters, and underwriting
8 counsel, or how did that work?

9 A Well, I don't know what happened before I
10 got involved. I assume only that the proposer of the
11 financing arrived with a firm to act as underwriter's
12 counsel and a firm to act as bond counsel. I just
13 simply assume that, I don't know.

14 Q And underwriter counsel was employed by the
15 underwriter. How about the bond counsel, who paid
16 the bond counsel?

17 A Bond counsel is normally paid out of the
18 proceeds of the issue, which I suppose you could
19 consider as being paid by the Authority.

20 Q Do you recall any other instances where you
21 worked on a proprietary transaction or product?

22 A No, not within the scope of your inquiry.

36

1 Q Did you ever work on another instance where
2 you worked on a team with underwriters and other
3 counsel that included Lasater & Company that included
4 that type of transaction, was a package deal?

5 A Well, I'm reviewing this list right now.
6 Give me a moment. I can't remember any. Can you
7 help me?

8 Q No, I am actually just asking you if you
9 know. You are far better equipped to do it than I
10 am.

11 A One other thing. I don't want to be
12 misinterpreted, and that is that when we did a
13 refunding issue, and I assume it is still the policy
14 of the Authority today, that the bond counsel firm
15 which approved the original issue was asked to act as
16 bond counsel on the refunding issue because of the
17 familiarity with the financing to begin with. And I
18 did that on a couple of occasions.

19 Q Were you aware, during the period 1983
20 through 1986, of any concerns that were expressed
21 about the net capital position of Lasater & Company
22 or Collins, Locke & Lasater?

1 A No.

2 Q Who else at the firm worked with you on the
3 work you did for the agency?

4 A Well, you are asking me to recall 18 years
5 of experience.

6 Q Was there generally a group of people who
7 did work in this area?

8 A Various times, and I can't recall, without
9 going back into the file, any specific amount of work
10 more or less. At various times, Les Baledge, Watt
11 Gregory.

12 Q What was the last name?

13 A H. Watt, W-a-t-t, Gregory, G-r-e-g-o-r-y.
14 He is no longer with the firm. Brantley Buck, Jane
15 Dickey. Now that's up to -- what are you looking at
16 here, '86 or so? '86, '88, that's -- that's about
17 it.

18 We have some other associates, more recent
19 than that, who worked on some deals recently. But
20 not in the last -- that's only been the last five
21 years or so.

22 Q What were you about to say, sir?

1 A I said I can't remember if Mr. Fowler
2 worked on any ADFA matters while he was an associate
3 here. I know he worked with us in the municipal bond
4 area. My recollection is that he worked on issues
5 other than ADFA, but he would be someone else who
6 might have, at one time or another, done something.

7 Q Okay. Are you aware of any other billing
8 members that participated in the representation,
9 either of the agency or any of the -- or as
10 underwriter counsel or bond counsel?

11 A I can't categorically say no, but it would
12 have been unusual. Occasionally, we would ask a tax
13 lawyer, or if we had a real property question, we
14 would ask someone else, or maybe language about
15 bankruptcy provisions, particularly like the HECAP
16 transaction where you have the question of complying
17 with -- Bankruptcy Act compliance, we will get other
18 people with expertise involved.

19 But typically I was the billing lawyer. I
20 am not sure exactly what the focus of the question
21 is, whether somebody else worked on it, or whether
22 somebody else sent out a bill.

1 Q It was actually twofold, sir. The first
2 part was who else work on it, and the second question
3 I asked was with regard to who put in the billing for
4 it.

5 A I would be very much surprised if anyone
6 other than myself billed ADFA, other than
7 Mr. Gregory, or Mr. Dickey, when they were the --
8 Jane Dickey, Ms. Dickey, not Mr. Dickey, when they
9 were the lead lawyer on a file.

10 I did not manage every one of these
11 issues. But it's been in the last six years, I
12 guess, that Jane Dickey has done the Whitewater
13 revolving loan program that began in 1991. And as
14 far back as the 1988 collateralized mortgage
15 obligations, we were doing one for Little Rock and
16 one for the state at the same time, and I can't
17 remember which one was doing which, so that's a
18 pretty good guess.

19 Q Okay. During the time -- again, we are
20 looking at 1982 through 1986 -- were you aware of any
21 relationship between the governor and Dan Lasater?

22 A No.

40

1 Q Were you aware of a relationship that
2 existed between Mr. Lasater and the governor's
3 brother, Roger Clinton?

4 A No.

5 Q I would like to -- I am going to refer to a
6 newspaper article that's been produced to the
7 Committee. It bears the Bates stamp number DKS
8 017642, and DKS 017643. It is from -- it appears to
9 be from the Hot Springs Sentinel Record, February 26,
10 1985. And the headline is "governor's brother
11 testifies at SPA attorney's drug trial," SPA.

12 And the second paragraph reads, "Roger
13 Clinton told his best friend Dan Lasater, Florida
14 businessman and race horse owner, about his drug
15 debts and Lasater loaned him \$8000, Clinton testified
16 in the trial of Sam Anderson, Jr., 28, of Hot
17 Springs, a local attorney, charged with cocaine
18 distribution."

19 Do you recall seeing -- reading an article
20 about that, or hearing about that testimony?

21 A No, I don't recall it. Which is not to say
22 it didn't happen, but I have never met Roger Clinton

1 in my life. I have never met Dan Lasater in my
2 life. And I don't read the Hot Springs newspaper.

3 Q Okay.

4 A Well, I can represent to you that there are
5 similar accounts in Little Rock newspapers.

6 Q You don't have any recollection of that?

7 A Not with respect to a date, no.

8 Q But generally, do you recall hearing about
9 that?

10 A Yes.

11 Q Without putting a specific date on it?

12 A Yes, I recall hearing about it.

13 Q Did you hear about it during the time that
14 you were providing legal work to the ADFA, and during
15 the time you were also doing legal work in deals
16 connected with Mr. Lasater's firm?

17 A No, I just testified that I don't remember
18 when I heard it.

19 Q I was just trying to place it closer in
20 time for you, sir, that's all.

21 Did the issue of Mr. Lasater's drug use,
22 did that ever come up in conversation with regard to

1 their participation in AHDA or ADFA bond offerings?

2 A Not that I am aware of.

3 Q Was Mr. Lasater's drug use ever raised by
4 anyone at Rose with regard to their representation of
5 Lasater as underwriting counsel?

6 A I do not recall having any discussion of
7 that with anybody, in terms of representation.

8 Q This is a slightly different question from
9 the last question I asked you. Have you ever heard
10 that the governor ever directed anyone at ADFA, AHDA,
11 either a board member or staff member, to give
12 business to Dan Lasater or Lasater & Company?

13 A No, I have never heard that.

14 Q Are you aware whether the governor ever
15 directed anyone at AHDA or ADFA to direct legal work
16 for ADFA or AHDA to the Rose Law Firm?

17 A No, I am not aware of that.

18 Q Did Mrs. Clinton do any legal work in
19 connection with AHDA or ADFA work?

20 A Not that I am aware of.

21 Q With regards to fees that the firm received
22 from AHDA or ADFA, were those included in the profits

1 shared with Mrs. Clinton in her standing as a member
2 of the firm?

3 A The process that I recall, and I can't put
4 a date on this, but the process that I recall was
5 that, near the end of the year, I would be asked by
6 our office manager to identify anything received and
7 any work I had done for a state agency in connection
8 with a state agency.

9 Q Okay.

10 A And I would identify those, that is both
11 bond counsel fees and underwriter's counsel fees. I
12 would identify those and provide them to him. And
13 somewhere in the process, that was totaled up and a
14 separate balance was calculated. I can't recall
15 anything more specific than that. I am sure other
16 people have that information.

17 Q Okay. And just so I am clear, you said
18 that fees charged to be bond counsel and underwriting
19 counsel were included in the category of business
20 done in connection with a state agency?

21 A That's right.

22 Q Even though -- didn't you say the

1 underwriting counsel was paid by the underwriters?

2 A I didn't say that, but that's true.

3 Q That's true? And that was still included
4 in that category?

5 A That's right.

6 Q Okay.

7 A We did not want to create any appearance of
8 profiting from any business that we did involving the
9 state.

10 Q Did that include fees as a special tax
11 counsel?

12 A Well, since we never got any of those fees
13 that I am aware of, I guess not.

14 Q How about as an issuer's counsel?

15 A Any fee involving the state agency,
16 whatever the relationship.

17 Q I would like to refer you to again another
18 newspaper article. This is from The Arkansas
19 Gazette, dated October 10, 1986. It's a two-page
20 document, which bears Bates stamps DKS N 026012. And
21 DKS N 026013, and the title of the article reads
22 "Clinton sees bid to buy off smokescreen White

1 says." I don't know if that's particularly a
2 well-put headline, but -- and then the second page of
3 the article, in the middle column, in the third full
4 paragraph down, it reads "Clinton told reporters he
5 saw no conflict of interest for the Rose Law Firm to
6 be bond counsel for the Arkansas Development
7 Financial Authority or represent underwriters. He
8 acknowledged that his wife benefited from the firm's
9 involvement but said she received shares and fees
10 from the bond proceeds, not tax money."

11 As far as you know, is that statement
12 accurate?

13 A It doesn't even make sense. Would you read
14 that again? I must not have understood you
15 correctly.

16 Q I would be happy to. It begins "Clinton
17 told reporters he saw no conflict of interest for the
18 Rose Law Firm to be bond counsel, for the Arkansas
19 Development Finance Authority, or represent
20 underwriters. He acknowledged that his wife
21 benefited from the firm's involvement, but said she
22 received shares of fees from the bond proceeds not

1 tax money."

2 A What was that date?

3 Q October 10, 1986.

4 A Well, at some time this became an issue in
5 some campaign; this may be the one.

6 Q Yes.

7 A And Mrs. Clinton asked us to go back and
8 calculate all the fees that had been paid since -- I
9 am not sure when, 1980, 1981, whatever. Maybe it was
10 when the President returned to office as governor,
11 after the '82 election. I can't remember the dates.

12 Q Okay.

13 A And we computed that, and as I recall, she
14 reimbursed the firm for whatever her distributions
15 might have been that were represented by whatever
16 those -- the percentage of those firms or to whatever
17 fees had been distributed to her.

18 Q Okay.

19 A I thought it was overly generous of her,
20 and wished she hadn't done it, but I guess that's
21 when we started the process of -- on a prospective
22 basis, recalculating or having two sets of

1 calculations, one excluding state fees and that sort
2 of thing.

3 Q So your recollection is that that process
4 began after or during the 1986 gubernatorial
5 campaign?

6 A No, I don't recall the exact year.

7 Q Okay.

8 A That probably was the -- probably the time.

9 Q With regard to the fees she reimbursed the
10 firm with, did that include the AHDA and ADFA fees
11 that the firm had received?

12 MR. FEUER: Michael, I will interject
13 myself here. Mr. Campbell, you are represented by
14 counsel in this deposition so I will not presume to
15 give you any instructions, but I would point out this
16 Committee operates under a Resolution and the sole
17 source of our authority to conduct an investigation
18 is that Resolution.

19 And the Resolution doesn't authorize us to
20 investigate the Rose Law Firm's fees or the way
21 Mrs. Clinton participated in the Rose Law Firm's
22 profits -- although those certainly have been the

1 subject of quite a bit of public scrutiny -- but
2 rather, to investigate bond underwriting contracts,
3 between ADFA and Lasater & Company. And it seems to
4 me that we are getting particularly far afield from
5 that inquiry.

6 MR. ATKINS: Do you have any response,
7 Mr. O'Callaghan?

8 MR. O'CALLAGHAN: Certainly, of course.

9 This line of inquiry that I am engaging in
10 I am happy to explain to you my thoughts on the
11 relevance of asking questions about this particular
12 issue. And that is, it relates to a pattern of
13 conduct with regard influence used to or possible
14 influence used to grant or give state business to
15 people by the governor's office or by the governor
16 himself, and with regard to the fact that we are
17 looking at the bond underwriting contracts between
18 Lasater & Company, and Arkansas Development Finance
19 Authority and Arkansas Housing Development Agency.

20 It is also relevant to see if there was any
21 influence brought to bear with regard to other people
22 participating in that process. And that's why I have

1 embarked on this line of questioning.

2 MR. FEUER: But, Michael, you have already
3 asked the witness whether he heard that Governor
4 Clinton directed anyone at ADFA to direct business to
5 the Lasater firm or to the Rose Law Firm and he
6 testified that, no, he was not aware of that.

7 So getting into excruciating detail as to
8 how the Rose Law Firm calculated Mrs. Clinton's
9 partnership draw, to me, has nothing to do with this
10 Resolution.

11 MR. ATKINS: I think this is pretty far
12 afield, too and, frankly, Mr. O'Callaghan, I think
13 that you've finished covering this anyway.

14 MR. O'CALLAGHAN: I actually was about to
15 wrap it up.

16 MR. ATKINS: I think you have wrapped it
17 up.

18 MR. O'CALLAGHAN: Could you read the last
19 question before Mr. Feuer made his point.

20 MR. FEUER: Interjection.

21 (The reporter read the record as requested.)

22 MR. O'CALLAGHAN: I would like that last

50

1 outstanding question to be answered, and then I will
2 be happy to move on to another area. Did you hear
3 that, Mr. Campbell?

4 THE WITNESS: I could not hear the readback
5 on that.

6 MR. O'CALLAGHAN: She'll do that again.

7 (The reporter read the record as requested.)

8 THE WITNESS: The grammar is not very good.

9 MR. O'CALLAGHAN: I apologize.

10 THE WITNESS: I will treat that as, in
11 substance, did she reimburse the firm, other members
12 of the firm, for moneys which represented fees
13 received from AHDA or ADFA business, and I believe
14 the answer is yes.

15 MR. O'CALLAGHAN: Thank you.

16 BY MR. O'CALLAGHAN:

17 Q Mr. Campbell, have you ever heard that AHDA
18 or ADFA bond offerings were used as vehicles to
19 launder money?

20 A Have I ever heard it?

21 Q Yes, sir.

22 A Yes, I have heard it, and it is an absolute

1 lie and a falsehood.

2 Q So you don't have any actual knowledge of
3 that happening?

4 A Of what happening?

5 Q Of the bond offerings being used as a
6 vehicle to launder money?

7 A Of course not.

8 MR. O'CALLAGHAN: Why don't we go off the
9 record for a second.

10 (Discussion off the record.)

11 MR. O'CALLAGHAN: Why don't we go back on
12 the record.

13 BY MR. O'CALLAGHAN:

14 Q Mr. Campbell, are you aware of whether any
15 government agencies relied on governor to give him
16 advice on which financial firms to use to do
17 financing for bonds?

18 A No, I am not sure I understand the
19 question. But if you are asking if the governor's
20 office gave the agency advice, I am not aware of it.

21 Q I have a document here, it is an one-page
22 document from the office of the governor. And it

1 bears a Bates stamp DKS N 027247. It is a memorandum
2 to "gov.," with a handwritten check mark on it with
3 the date 20 June 1985. It is from P.J., and the
4 subject is Ballard's refinancing of bonds.

5 And the text reads "Vo-Tech and its board
6 are going to look into refinancing their existing
7 bond if it is, as they hope, financially
8 advantageous. Ballard called today and said that
9 George Campbell said, had suggested that he check
10 with you before hiring a firm as a finance adviser.
11 (Rose Law Firm does the do this kind of work, but
12 they do serve as Vo-Tech's bond attorneys on this)
13 The reason Campbell suggested Ballard get some input
14 from you is because Ballard's inclination is to go
15 with Mark -- I asked what the other alternatives were
16 and he said the following T.J. Raney Dabbs Sullivan
17 Lasater Powell & Satterfield."

18 And then it reads "The board is ready move
19 on this. Please advise as soon as possible."

20 A Who are you quoting from?

21 Q It is a memo from an individual with the
22 initials P.J.

1 A And who are the other names in there
2 besides the governor's and mine?

3 Q Well, it is addressed to the governor, and
4 the other one, the other name, I believe it is a last
5 name Ballard.

6 A Spell that please.

7 Q B-a-l-l-a-r-d. And the beginning of it
8 says "Vo-Tech and its board are going to look into
9 refinancing the existing bonds." Then after that, it
10 reads "Ballard called today and said that George
11 Campbell had suggested he check with you before
12 hiring a firm as finance adviser." "Check with you,"
13 being the governor, it appears. Then it says "The
14 reason Campbell suggested Ballard get some input from
15 you, the governor, is because Ballard's inclination
16 is to go with Mark McBride at Stephens, Inc. I asked
17 what the other alternatives were and he said the
18 following, a list of four firms."

19 A I have all that. Now, what is the
20 question?

21 Q The question is, does this help refresh or
22 change your recollection as to whether the governor

54

1 was ever asked for guidance or advice on what --
2 financial firm to use with regard to financing by
3 state agencies?

4 A Well, my answer is still the same. I don't
5 know that, to my knowledge. You tell me you have
6 something in writing that says it happened. I didn't
7 know it and I don't know it.

8 Q Do you know anyone by the name of Ballard,
9 or the last name Ballard?

10 A I have a childhood friend by that name.
11 Vo-Tech would mean somebody in the State Department
12 of Education, but I don't remember a name now.

13 Q Do you recall having a conversation with
14 someone suggesting that they talk to the governor
15 before hiring a financial adviser?

16 A I have no recollection of it.

17 Q Okay.

18 MR. ATKINS: What were the initials again?

19 MR. O'CALLAGHAN: P.J., P as in Paul and J
20 as in James.

21 BY MR. O'CALLAGHAN:

22 Q Do you know if the governor ever

1 recommended Lasater to the Vo-Tech board for a
2 refinancing of their bonds?

3 A I have no idea. No, I do not know it. We
4 did three bond issues in that area, and as far as I
5 know, they weren't involved.

6 Q During the period 1982 through 1986, are
7 you aware of any legal work or -- let me rephrase the
8 question.

9 Are you aware of any litigation that the
10 law firm was involved in that involved Dan Lasater,
11 or Lasater & Company, as a party to the litigation?

12 A I am not aware of any, no.

13 Q Just for clarity, or to help refresh your
14 recollection, are you aware whether the Rose Law Firm
15 ever represented the FDIC, or the First American
16 Savings & Loan Association, in a suit against Lasater
17 & Company in 1985?

18 MR. FEUER: Michael, I would ask how that
19 question fits within the scope of Senate Resolution
20 120.

21 MR. ATKINS: Besides that, it is factually
22 inaccurate.

1 MR. O'CALLAGHAN: Well, it is a question,
2 so it is not -- I am not saying that anything is -- I
3 am not representing any facts to be a certain way. I
4 was asking Mr. Campbell a question, whether he had
5 knowledge of an incident of a litigation that
6 occurred during that time period involving those
7 parties.

8 MR. ATKINS: You asked him if he was aware
9 of facts that are false. George, you can answer that
10 if you like.

11 THE WITNESS: Well, my answer is that I
12 don't know anything about any FDIC lawsuits, because
13 I didn't do any of that work. And you know, some of
14 those names sound like something I have read or heard
15 about in the newspaper in the last two years, but I
16 don't know anything about them.

17 BY MR. O'CALLAGHAN:

18 Q So you don't have any personal knowledge of
19 that?

20 A No.

21 Q During the period 1982 through 1986, did
22 you have any personal contact with Dan Lasater?

1 A Not to my knowledge.

2 Q I'm sorry, was that not to your knowledge?

3 A Not to my knowledge.

4 Q Did you have any personal contact with the
5 governor?

6 A Occasionally.

7 Q Did you have any discussions about AHDA or
8 ADFA bond offerings?

9 A No. If that was in that time frame we
10 wrote the ADFA legislation.

11 Q Other than that?

12 A No.

13 MR. O'CALLAGHAN: I have no further
14 questions at this time. Thank you.

15 EXAMINATION

16 BY MR. FEUER:

17 Q Mr. Campbell, this is Mitchell Feuer, I
18 think I have a very small number of questions for
19 you.

20 In 1982, when Governor Frank White sought
21 re-election, was his opponent the former governor of
22 Arkansas, Bill Clinton?

1 A That's my recollection.

2 Q Did you have an impression at that time as
3 to whether the firm Stephens, Inc. favored one
4 candidate or the other in that election?

5 A My recollection is that they favored
6 Governor White.

7 Q Where did Governor White go to work after
8 he was defeated for re-election in that election?

9 A I'm not sure of his exact title, but he
10 became an officer at Stephens Inc. in their public
11 finance area.

12 Q Did Stephens, Inc. continue to participate
13 in AHDA and ADFA bond underwriting business after
14 Bill Clinton defeated Frank White in 1982?

15 A Yes.

16 Q Are you aware of any underwriting firms
17 being included or excluded from AHDA or ADFA bond
18 underwriting business based on which political
19 candidates they supported?

20 A No.

21 MR. FEUER: That's all I have.

22 EXAMINATION

1 BY MR. O'CALLAGHAN:

2 Q Mr. Campbell, I have one document which I
3 meant to discuss with you earlier. I just want to --
4 it was produced to the Committee and I want to have
5 you identify it or see if you recall creating it.

6 It bears Bates stamp DKS N 027278 through
7 DKS N 027383. And it is a memorandum, to Hillary
8 Rodham Clinton and Web Hubbell from George E.
9 Campbell dated September 11, 1986. And it reads "re:
10 regarding legal services in connection with bond
11 issues of the state of Arkansas and related agencies
12 during the period 1978 through July 1st, 1986."

13 And the short paragraph, which I will read,
14 says "the attached memorandum sets out each of the
15 bond issues for which we have performed professional
16 services during the referenced period. The report is
17 in three parts. Pages 1 and 2 indicate those issues
18 for which we have served on bond counsel pages; 3 and
19 4 indicate those issues for which we have served as
20 underwriter's counsel; and page 5 indicates the one
21 issue in which we serve as issuer's counsel. Please
22 let me know if you need other information."

60

1 Then there are initials "GEC: LG." And the
2 attached pages contain tables listing issue, date of
3 issue, principal amount, and fee as bond counsel.

4 And similar tables, that's for the bond
5 counsel services 7/86. The second page is a
6 continuance and consistent with the front of the
7 document. The next page is underwriter's counsel
8 services. 78 through 86, and then the last page is
9 issuer's counsel services.

10 Do you recall preparing a document similar
11 to one I have just described to you?

12 A Yes.

13 Q And do you recall how you came to prepare
14 that document?

15 A Well, my recollection is that it arose out
16 of the circumstances that we heard about earlier,
17 about Mrs. Clinton's desire to reimburse the firm for
18 any fees that came from that sort of work. And since
19 I did most of it, I was asked to get the information
20 together.

21 I haven't seen it since then, but that
22 sounds like what I did.

1 Q So this is a document you prepared to help
2 identify or target which business the firm did, state
3 business the firm did, with the AHDA and ADFA to help
4 parcel that out from Mrs. -- to help Mrs. Clinton
5 figure out what she was going to reimburse the firm
6 for?

7 A That's my recollection.

8 Q There is some writing on top, right corner
9 in dark pen, and this may or may not have been on the
10 document you saw. If you are not familiar with it
11 just let me know. It reads "BC -- I have to explain
12 this to you."

13 Did you ever see this document with that
14 writing on it?

15 A No. I can't say that I've ever seen it,
16 but it sounds like something I did.

17 Q Who would BC be, are you aware?

18 A No.

19 Q Do you know if this document was supplied
20 to the governor's office?

21 A Wouldn't have any idea.

22 Q And who did you provide the document to?

1 A Whoever it is addressed to.

2 Q It says to Hillary Rodham Clinton and Web
3 Hubbell, and there is a check mark next to Hillary
4 Rodham Clinton.

5 A I guess you got it from her, then. I don't
6 know. Or that's who I sent it to.

7 MR. O'CALLAGHAN: Thank you. I have no
8 further questions.

9 MR. FEUER: Thank you.

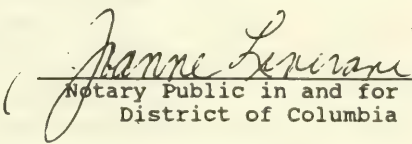
10 (Whereupon, at 3:47 p.m., the deposition
11 was concluded.)
12
13

14 -----
15 GEORGE EMERSON CAMPBELL
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

63

I, JOANNE LIVERANI, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires

JULY 31, 2000

DEPONENT George E. Campbell

ERRATA

[illegible]

**DEPOSITION OF DAVID A. KNIGHT
IN RE: S. RES. 120**

FRIDAY, APRIL 26, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of DAVID A. KNIGHT, called for examination pursuant to notice of deposition, at 4:15 p.m. in Room 640-A of the Hart Senate Office Building, before JULIE BAKER, a Notary Public within and for the District of Columbia, when were present:

ALICE S. FISHER, Esq.
Majority Deputy Special Counsel
LANCE COLE, Esq.
Minority Deputy Special Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

ALDEN L. ATKINS, Esq.
Vinson & Elkins, L.L.P.
The Willard Office Building
1455 Pennsylvania Avenue, NW
Washington, DC 20004-1008
On behalf of the Deponent.

ALSO PRESENT: JENNIFER M. SWARTZ

CONTENTS

WITNESS	EXAMINATION
David A. Knight	
by Ms. Fisher	4
by Mr. Cole	36
by Ms. Fisher	43
by Mr. Cole	47
Errata	5406

P R O C E E D I N G S

MS. FISHER: As I identified myself before, I'm Alice Fisher. I'm deputy special counsel for the Majority staff. This deposition is being conducted pursuant to Senate Resolution 120, which establishes the Special Committee administered by the Banking Committee to conduct an investigation involving Whitewater Development Corporation, Madison Guaranty Savings & Loan and other related matters.

Section 1(b) of the resolution sets out an investigation and public hearings into issues which will be the focus of today's deposition. I'll ask you a series of questions and ask you that you testify under oath. If you don't understand a question, please let me know; I'll rephrase. And if you need a break, let me know.

The stenographer will prepare a record of the questions and answers and the deposition will be treated as committee confidential until the commencement of public hearings relating to the subject if there are any, in fact. Prior to any hearing after the deposition comes back, if you want

4

to come to the Senate to review your transcript and fill out an errata sheet, you can do that.

Alden, if you want to come on his behalf to do that, you're welcome to just make that appointment with Lori.

MR. ATKINS: Okay.

MS. FISHER: I see that you're represented by counsel. If you want to state an appearance for the record.

MR. ATKINS: Sure. This is Alden Atkins from Vinson & Elkins.

MS. FISHER: And Mr. Knight, will you agree to be sworn in over the phone?

MR. KNIGHT: Yes.

Whereupon,

DAVID A. KNIGHT

was called as a witness and, having first been duly sworn, was examined and testified as follows:

EXAMINATION

BY MS. FISHER:

Q Do you want to state your full name for the record, please.

1 A David Arceneaux Knight.

2
3
4 Q Could you give me a brief description of
5 your employment history.

6 A Following college?

7 Q That would be great.

8 A After college, I went into the military
9 into officer's school and was in the military for
10 3-1/2 years. Most of that time I spent as a missile
11 launch officer.

12 I left the military in January of '75,
13 finished a master's degree in public administration
14 that I had been working on that summer and started
15 law school at the University of Arkansas in
16 Fayetteville in the fall of '75. I graduated from
17 law school in May of '78. Worked for a year as a law
18 clerk to J. Smith Henley, who was the judge on the
19 U.S. Eighth Circuit Court of Appeals.

20 In '79, after I completed my clerkship, I
21 went to work as a staff attorney in the office of the
22 general counsel of the Securities and Exchange

1 Commission, and I worked there until the midsummer of
2 1981, and I started as an attorney in private
3 practice with the Rose Law Firm in October of 1981,
4 and I was with the Rose Law Firm in that time until
5 April of 1988. And in April of 1988, I took my
6 current job position, which is general counsel of
7 Stephens, Inc., and I've been here ever since.

8 Q Did there come a time when you became
9 partner of the Rose Law Firm?

10 A Yes. It was roughly 2-1/2 years after I
11 joined the firm.

12 Q So sometime in '83?

13 A Yeah. That sounds about right. And at
14 some point after that, I became a senior partner, a
15 couple of years after that.

16 Q And was there a particular division within
17 the firm that you worked in?

18 A I worked in what was called the securities
19 section.

20 Q Mr. Knight, are you aware of the
21 Committee's document request to the Rose Law Firm?

22 A No.

1 Q Did you at any time search for documents
2 that may be responsive to the Committee's document
3 request at any time?

4 A I didn't really take any documents with me
5 from the Rose Law Firm when I came over here that had
6 anything to do with this matter, so I really didn't
7 have anything to search.

8 Q So they would have all been left at the
9 firm?

10 A Yes, absolutely.

11 Q Did you speak to anyone other than your
12 counsel prior to the deposition with regard to this
13 deposition?

14 A No.

15 Q I want to focus your attention to a period
16 in 1985, if I could, and ask you if there came a time
17 when you attended a lunch with Rick Massey and John
18 Latham with regard to Madison Guaranty?

19 A Yes. I did attend a lunch with the two of
20 them, and I believe it was in the spring of '85, but
21 that really is a guess. I thought about that and
22 tried to nail that date down, and I'm not sure of the

1 precise date, but I think it was in that time frame.

2 Q Prior to the lunch, did you know John
3 Latham?

4 A Yes. I had met John Latham the preceding
5 semester. He was a student in a securities law
6 course that I was teaching. I believe it was a night
7 course, and I met him for the first time as a student
8 in that course.

9 Q And just for the record, was he president
10 of Madison Guaranty Savings & Loan at that time?

11 A That was my understanding.

12 Q Did you teach this course with Mr. Massey?

13 A Yes. Actually, I was the professor of
14 record, I guess you would describe it. I was the one
15 that was really teaching it as far as the university
16 was concerned, and Rick Massey was helping me teach
17 it, and in particular, he would help cover for me
18 when I had travel that conflicted with my class
19 schedule.

20 Q So when you couldn't make it to teach the
21 class, he would fill in for you?

22 A Yes, and maybe a little bit more than

1 that. We kind of taught it together, but it was
2 technically my responsibility.

3 Q Prior to that time in the spring of '85,
4 had you done any work for Madison Guaranty Savings &
5 Loan?

6 A No.

7 Q Did you at some point prior to this lunch
8 work for Madison Bank and Trust on a matter?

9 A Not to my knowledge.

10 MS. FISHER: One of the billing records
11 that we have that's marked DKS 28933, Alden, for
12 your benefit, if you have them in front of you --

13 MR. ATKINS: You're talking about the fee
14 credit reports?

15 MS. FISHER: No, I'm talking about a
16 billing record, I believe. It was part of the
17 package that was produced in January.

18 BY MS. FISHER:

19 Q It's hard to read, but I believe it must
20 have been the Bank of Kingston matter, and it lists
21 your name as one of the lawyers who had rendered
22 legal services, and it has a date on the top of

10

1 1981.

2 A Well, I started with the firm, I think, in
3 October of 1981. I mean, so I would have been a
4 brand-new associate, and it's possible that somebody
5 may have asked me to research a legal question or do
6 a memo or something like that, but I honestly don't
7 remember the Bank of Kingston at all, and I wouldn't
8 have even recognized that that was related to Madison
9 Guaranty. I just don't remember anything about it.

10 MR. COLE: Why don't we read the entire
11 entry into the record just for clarity of the record
12 and perhaps to help Mr. Knight out.

13 MS. FISHER: That's what I was going to do.

14 THE WITNESS: Okay.

15 BY MS. FISHER:

16 Q What it says is "for legal services and
17 professional advice rendered by C.J. Giroir, Jr.," I
18 think it's "Richard B. Steinkamp, David A. Knight,
19 Vincent Foster, Jr., Carol Arnold" -- Carol?

20 A Carol Arnold, yes.

21 Q It says "Rodham" at the bottom of the page,
22 but I can't read Rodham right there. Do you have any

1 idea, Lance, what it says?

2 A I don't have any reason -- if you've got
3 that record and that's what it says, I certainly
4 don't have any reason to dispute that I did something
5 on that matter.

6 Q Right.

7 A I just don't recall what it is or if I did
8 it.

9 Q It goes on to say "from during the period
10 April 13, 1981 through December 15, 1981, including
11 time spent in continuances with" --

12 MR. COLE: Conferences?

13 BY MS. FISHER:

14 Q -- "client conferences maybe, research
15 preparation or pleadings, correspondence re: First
16 National Bank of Huntsville versus Madison Bank and
17 Trust, Madison" -- oh, something chancery number.
18 That's what it says. So given the names of those
19 people and the name of the matter, does it refresh
20 your recollection at all that you had worked on
21 something involving Madison Bank and Trust?

22 A No, it really doesn't. I mean, I recognize

12

1 all those people, and I work with Joe Giroir and
2 Richard Steinkamp. Those were two people who worked
3 in my section, but I don't remember doing any work on
4 what that work was really.

5 Q When you attended the lunch in 1985 with
6 Mr. Latham and Mr. Massey, do you recall having the
7 impression that you had not worked for this client
8 before?

9 A Yes. For me, it was a brand-new client.

10 Q Why don't you tell me what you recall about
11 the substance of the discussion at that lunch?

12 A It's been so long ago that I don't recall
13 any of the particular, like, exact language, but as I
14 recall, it was after the course was over and the
15 papers were graded, and the purpose of the lunch was
16 basically, from my standpoint, was basically to go
17 and to talk to John Latham about what Madison -- what
18 type of business Madison was doing and to get a feel
19 for whether they were doing any type of securities
20 work or business transactions or financing that fell
21 into my specialty area, and Rick worked with me a lot
22 on those types of transactions.

1 In other words, we were out there
2 prospecting for business and to see what kind of work
3 they had and tell John Latham the type of work we did
4 on a regular basis and information about
5 representative clients that we had and see if there
6 was something they had that was an opportunity for
7 work, and that was generally the gist of the
8 conversation that we had.

9 Q Who asked you to attend the lunch?

10 A To the best much my recollection, I think
11 Rick Massey came up with the idea of taking John
12 Latham to lunch, and I said I thought that would be a
13 good idea.

14 Q Do you remember anything that Mr. Latham
15 said with regard to this subject?

16 A Well, when we talked to him about doing
17 some work, my recollection is that he said even
18 though he was the president, that really it was James
19 McDougal that made the decisions about hiring lawyers
20 and that Madison had a regular outside counsel -- a
21 regular firm that it used as outside counsel, which
22 was the Mitchell law firm, and so that relationship

1 was already there, and I believe he just generally
2 indicated that he thought that had been a good
3 relationship and that they were satisfied with the
4 work that the Mitchell firm was doing, and he really
5 wasn't very encouraging about our getting any work
6 because of the relationship with the Mitchell firm.

7 Q So he didn't tell you at that lunch that he
8 was going to send business your way, basically?

9 A No, he did not. As a matter of fact, he
10 said he didn't really think there was much of a
11 business opportunity there for me and Rick anyway.
12 We were really asking him about securities work and
13 finance work.

14 Q Did he tell you anything about Madison's
15 plans for securities work at that time?

16 A I really can't recall. We were kind of
17 interested, as I recall, because of the type of work
18 the savings and loans were doing as to whether there
19 might be some real estate syndication work, something
20 like that, but I don't think -- I'm pretty sure he
21 didn't get into any kind of specific detail about
22 what projects they were working on. We never really

1 got that far.

2 Q At that point, did you ask Mr. Latham
3 whether you could meet with Mr. McDougal since it was
4 Mr. McDougal who was making the decisions on who to
5 hire?

6 A No.

7 Q Did Mr. Massey ask if a meeting could be
8 arranged with Mr. McDougal?

9 A Not that I recall.

10 Q So what was your impression after -- what
11 was your impression after you left the lunch about
12 what the next step would be, if any?

13 A Well, my impression was that -- which has
14 been typical of my experience in the business is that
15 when a large firm like the Mitchell firm has an
16 existing relationship with a business like that, and
17 it seems like everything is going well, that there's
18 just a lot of natural resistance to rocking the boat,
19 bringing in new counsel, and there just wasn't much
20 of an opportunity there, and so I just forgot about
21 it and went on about my business. I just didn't
22 figure there was much there to pursue.

1 Q During the lunch, do you recall anyone,
2 Mr. Latham or Mr. Massey -- I'm sorry. Strike that.

3 Other than Mr. Latham and Mr. Massey and
4 yourself, was anyone else at the lunch?

5 A No.

6 Q Do you recall at the lunch anyone bringing
7 up or discussing the prior work the Rose Law Firm had
8 done for Madison Bank and Trust?

9 A I'm fairly certain that didn't happen. I'm
10 not sure I was even aware of any prior work that the
11 Rose Law Firm had done. I don't believe I was.

12 Q So Mr. Latham didn't, for example, mention
13 the fact that there were unpaid bills at the Rose Law
14 Firm that Madison Bank and Trust had not paid?

15 A No. He did not, and I would have to go
16 back and correct. I did know at that point that
17 there had been -- immediately prior to that lunch, I
18 had learned that there had been some kind of work,
19 litigation work, and there had been some sort of
20 problem with billing, but I didn't really have any
21 information about what that work related to, so I
22 guess I did know that there had been some work that

1 the Rose Law Firm had done probably out of the
2 litigation section, but it was nothing that I had any
3 firsthand knowledge of, and we did not discuss that
4 in the lunch with Latham.

5 Q Who told you about that?

6 A I had -- and this is a -- I'm trying to get
7 this right. It's kind of a vague recollection
8 because it was a very short conversation, but my
9 recollection is that I had mentioned -- I had gone
10 into Joe Giroir's office and had mentioned to him
11 that Rick and I were going to lunch with John Latham
12 and had been a student in my class and was president
13 of Madison and we were going to go have lunch with
14 him and see if there was a possibility of some
15 business there.

16 And he mentioned to me that there had been
17 some type of an argument or dispute over fees, and I
18 think he said it was with somebody in the litigation
19 section about a past representation of Madison and
20 that it was fine. He thought it was fine to go ahead
21 and have the lunch. But if anything came out of it,
22 and we decided we wanted to undertake a

1 representation on something, that we needed to -- I
2 needed to look into that and make sure there wasn't a
3 problem there.

4 Q Did he tell you who you had to talk to
5 about that?

6 A I don't believe so.

7 Q Did he tell you whether the bill had indeed
8 been paid by that time?

9 A I think what I told you is -- what I told
10 you is really my total recollection of that
11 conversation, and I didn't get into it, into any more
12 detail because the context of the conversation was
13 well, if something comes up from the lunch, then look
14 into it, and nothing ever came from the lunch, and so
15 I never looked into it, so I didn't get any more
16 information on it.

17 Q So you don't recall, for example, whether
18 Mr. Gerard told you that there was a dispute over the
19 fees or whether he told you well, we have some
20 outstanding bills that they never paid?

21 A I really just don't remember that kind of
22 detail.

1 Q Okay. Thanks.

2 Did Mrs. Clinton's name come up in the
3 conversation at lunch with Mr. Latham and Mr. Massey?

4 A I don't believe so.

5 Q Did Mr. Foster's?

6 A No, I don't believe so.

7 Q Did you know at that time that the Clintons
8 and the McDougals were friends?

9 A I can't really remember. It's possible
10 that I heard there was some relationship there, but I
11 can't tell. I've read so much about it in the
12 newspapers, books and whatnot. Since then, it's kind
13 of hard to piece it back together, but I don't think
14 I had a good understanding of what, if any,
15 relationship was there, or I'm not sure if I even
16 knew there was a relationship there at this point.

17 Q Did you know whether they were business
18 partners, just to be specific?

19 A Oh, no, I wouldn't have known anything
20 about that.

21 Q Do you recall -- after the lunch, did you
22 have a discussion with Mr. Massey about the lunch?

1 A Oh, I think I probably had a discussion
2 with him after the lunch about well, that kind of
3 winds that up type of discussion. It didn't look to
4 be like there's really anything there, and that's
5 about all I recall.

6 Q Did there come a time when you came to
7 learn that the Rose Law Firm had been retained by
8 Madison?

9 A Yes. At some point, I learned that the
10 Rose Law Firm had been retained by Madison with
11 respect to the recapitalization or some sort of a
12 corporate transaction they wanted to do that involved
13 filing something with the state securities
14 commission.

15 Q Do you recall how soon after the lunch that
16 occurred?

17 A I really have no idea about that.

18 Q Do you recall how you learned of the
19 representation?

20 A Oh, I think Rick Massey mentioned it to me.

21 Q Do you recall what he said when he told
22 you?

1 A No. Right now, all I can recall is I
2 generally came to know about the fact that that
3 business was in-house.

4 Q Do you recall that you were surprised when
5 you learned that?

6 A Well, I probably took note of the fact that
7 gee, I didn't get it. It's in-house or something is
8 in-house, but I don't think I would say surprised. I
9 mean, I had gone on to do a lot of other work and by
10 that time was doing a lot of major corporate and
11 finance transactions for three or four public
12 clients, and I was just buried all the time, and
13 frankly, it just wasn't a very big issue to me.

14 Q Did Mr. Massey ever come to you and tell
15 you that Madison hired the Rose Law Firm because of
16 the lunch or because due to his efforts?

17 A I really don't remember having any
18 discussions with Rick about how that work came
19 in-house at all.

20 Q Do you think that you would recall it if
21 Mr. Massey told you that the work came in because of
22 the lunch that you had with Mr. Latham?

22

1 A I don't know whether I would recall it or
2 not. I don't recall him ever saying anything like
3 that.

4 Q Mr. Massey was a first-year associate at
5 this time; is that correct?

6 A That's probably about right. I'm not
7 sure -- like I said, I came to the firm in late '81,
8 and I think I was probably a partner when Rick joined
9 the firm, so yeah, he would have been in his first
10 year or maybe a little bit after that. I'm not sure
11 exactly the timing on it, but you know, he was a
12 young associate.

13 Q When you found out that Madison had
14 retained the Rose Law Firm, were you told or did you
15 find out in some way who the billing partner on the
16 matter was?

17 A I don't believe I ever knew who the billing
18 partner on the matter was, until I read it years
19 later.

20 Q So you didn't know that the billing partner
21 for the Madison work was Mrs. Clinton until late '80s
22 or when?

1 A Well, I don't really know when it was. I
2 really don't believe I knew it at the time who the
3 billing partner on it was.

4 Q Given the fact that you had pitched the
5 business to Mr. Latham and the business that came in
6 was corporate or securities type work, were you
7 interested at all that the business didn't come to
8 you?

9 A Not really. Like I say, I was certainly
10 glad that we had business, but by that time, I was
11 representing, like I say, three big corporate
12 clients, Fairfield Communities and the bank
13 corporation, Tyson Foods, and the last thing I needed
14 was more business, so it just wasn't an issue to me
15 really, and savings and loan work was not my real
16 forte anyway. I was really more interested in doing
17 public company work which was what I had ended up
18 doing.

19 Q Mr. Knight, if you were not aware that
20 Mrs. Clinton was the billing partner on this matter,
21 did you assume that it was someone else, in
22 particular?

1 A I really -- I'm not sure I ever focused on
2 the issue as to who was the billing attorney on it.
3 I wasn't doing any work on it. It wasn't very
4 significant work on it. It wasn't something that I
5 remember us focusing on. It's possible that I knew,
6 but I just don't recall wondering who was the billing
7 attorney and going and finding out the thing.

8 Q Does the fact of bringing in a client or
9 being the billing attorney for a client factor into a
10 partner's compensation at the Rose Law Firm?

11 A Yes.

12 Q So if Madison had come to you and you had
13 been the billing partner on that, that would have
14 factored into your compensation, correct, at the end
15 of the day?

16 A Yes. Generally speaking, the compensation
17 of the firm related to hours that were billed and
18 collected. But normally, if you're the person that
19 brings in a matter and becomes the billing attorney
20 on it, usually that means you're doing the work on it
21 and those are your hours and you're getting paid for
22 it. So it's not a precise correlation there.

1 But normally, being the billing attorney on
2 the matter means you're going to be working on it and
3 deriving revenues from it, and you're going to be
4 working on the bills and dealing with the client
5 about how much to charge and that sort of thing.

6 Q Do you recall whether Mr. Massey ever told
7 you that he got some kind of bonus or some
8 commendation for bringing Madison in as a client?

9 A I don't really remember anything like that.

10 Q Do you recall having any discussions with
11 Mrs. Clinton during this period, '85 or '86, about
12 work for Madison Guaranty?

13 A No.

14 Q Do you recall having any discussions with
15 Mr. Foster about this work?

16 A No.

17 Q Did you at any time advise Mr. Massey that
18 there were problems with having Madison as a client
19 because of the problems and having work paid for in
20 the past?

21 A No, I don't think so.

22 Q So you had no participation in negotiating

1 a retainer agreement; is that correct?

2 A Absolutely. I didn't even know there was a
3 retainer agreement.

4 Q Did Mr. Massey ever tell you that he spoke
5 to Mrs. Clinton about the work, about bringing in the
6 work?

7 A He might have. I really don't remember
8 anything about how that work got to the firm. I just
9 kind of remember knowing that Rick was working on it
10 or had been asked to work on it and that's kind of
11 what I remember about it, and I remember that I knew
12 that from talking to Rick because he had an office
13 right next door to me, and we visited about stuff all
14 the time. He probably worked more with me than
15 anybody else, so it probably was just very general
16 conversations about what he was working on.

17 Q Just to be clear as to the question, you
18 don't recall Mr. Massey ever telling you that he had
19 a discussion with Mrs. Clinton about bringing in the
20 work?

21 A No.

22 Q Did Mr. Massey ever tell you that

1 Mrs. Clinton was going to see Mr. McDougal about the
2 business?

3 A No, not that I recall.

4 Q According to the billing records, the
5 initial work that Rose Law Firm did for Madison
6 particularly was a preferred stock deal. Given that,
7 do you have an understanding as to why a litigation
8 attorney would be the billing partner on such a
9 matter? If you can give me some understanding about
10 the way the firm works.

11 A Oh, well, that really would be unusual,
12 given any type of lawyer might bring a business
13 client or a corporate client in, it might be a
14 litigator or a tax lawyer or securities lawyer or
15 bond lawyer or labor lawyer, and whoever brought the
16 business in would probably open an account and then
17 it might well be the business attorney.

18 Then that lawyer, to the extent that the
19 client needed work outside of the billing lawyer's
20 expertise, would get other lawyers from the
21 appropriate sections of the firm to pitch in and help
22 with the work on it.

1 Q Do you recall working on any matters -- do
2 you have a recollection of working on any matters
3 involving Madison Guaranty in '85 or '86?

4 A I really don't. I looked at the billing
5 records that Alden showed me, and I noticed there was
6 a half-hour conference, I think, with Rick Massey,
7 but I really don't remember what that was about. I
8 mean, I'm sure if it was down there, I had conference
9 about something to deal with the project, but I just
10 don't remember what it was.

11 Q Let me just go through the billing records
12 and explain to you where your name appears on them.
13 If it helps you refresh your recollection, you can
14 tell me, and if not -- if you don't remember, just
15 tell me.

16 A Okay.

17 Q The first entry where your name appears is
18 May 3, 1985, and it's an entry by Rick Massey "to
19 revise stock subscription agreement and conference
20 with David Knight." Do you have any recollection
21 of -- and this is early on in the representation --
22 do you have any recollection of having such a

1 conference with Mr. Massey?

2 A No.

3 MR. COLE: What's the date of that
4 conference?

5 MS. FISHER: It's May 3, 1985.

6 BY MS. FISHER:

7 Q On June 19, 1985, Mr. Massey also writes
8 down another conference with S. Hawkins, D. Knight,
9 Charles Handley, and it's billed to the limited
10 partnership matter for Madison Guaranty. Does that
11 refresh your recollection at all?

12 A No, I don't even recognize those other
13 names.

14 Q Do you know Sarah Hawkins or Charles
15 Handley?

16 A No.

17 Q Do you recall having any discussions with
18 anyone at the Arkansas Securities Department about
19 Madison Guaranty?

20 A No.

21 Q Do you recall having any other
22 conversations with any officers, directors or

30

1 employees of Madison Guaranty in this '85, '86 time
2 period?

3 A Not other than that lunch with Latham.

4 Q On June 20 -- and this may be the same
5 conference, but it's just marked down on two
6 different days -- it says you bill a matter,
7 "conference re: Massey application and holding
8 company matters." Do you recall that?

9 A I remember looking at that time entry, but
10 I honestly don't remember that. It might help you to
11 understand that, like I said, Rick Massey's office
12 was right next to mine and so he would quite
13 frequently come in and ask me questions or get my
14 thoughts on a project that I wasn't working on, just
15 ask me legal theory or what I thought about this or
16 what I thought about that. And normally, I was in
17 the middle of doing 25 other things, and those are
18 the kind of things that I just don't really register
19 very much at this stage.

20 Q Sure, I understand. Let me just go
21 further. On September 20, the fall of that year,
22 Mrs. Clinton bills time which includes a conference

1 with you and Mr. Massey. Do you recall having a
2 conference with Mrs. Clinton about the Madison
3 Guaranty matter?

4 A I don't remember ever having talked to her
5 about Madison Guaranty. I mean, I don't have any
6 reason to dispute that entry. I just -- I just don't
7 remember it.

8 Q On December 2nd of that year, Mr. Massey
9 bills time to having a conference with you, among
10 other things. So I take it you don't recall that as
11 well?

12 A No. These were probably -- I mean, the
13 term "conference," it's probably just a very short
14 conversation about something.

15 Q I appreciate that. And that's it for the
16 billing records. I just needed to go through them.
17 Thank you for your indulgence.

18 A Sure.

19 Q Do you recall having any discussions with
20 Mr. Hubbell about Madison Guaranty in the '85 and '86
21 time period?

22 A No. I didn't even have him associated with

1 Madison, really.

2 Q Did you know a man by the name of Seth
3 Ward?

4 A No. I mean, other than what I've read
5 about him in the papers and whatnot. Not
6 personally. I've never met him.

7 Q Do you recall during the '85 and '86 time
8 period the Rose Law Firm worked on a real estate
9 closing for Madison Guaranty?

10 A Don't think I knew anything about that.

11 Q I want to now jump forward to the time
12 period of 1992, if I could.

13 A Okay.

14 Q Did you do any work on the Clinton
15 presidential campaign?

16 A No.

17 Q Did you speak to anyone during the 1992
18 campaign about the Madison Guaranty Savings & Loan
19 matter?

20 A Not that I recall.

21 Q Did anyone, for example, from the campaign
22 come to you and ask you about how Madison was

1 retained or the work that the Rose Law Firm did for
2 Madison?

3 A No, no.

4 Q Do you recall prior to 1996, January of
5 1996, ever seeing Madison Guaranty billing records?

6 MR. COLE: From the Rose Law Firm?

7 MS. FISHER: From the Rose Law Firm, excuse
8 me.

9 THE WITNESS: You mean like someone
10 bringing me billing records from the Rose Law Firm?

11 BY MS. FISHER:

12 Q No. Any kind of internal billing records
13 or bills sent from Madison Guaranty to the Rose Law
14 Firm.

15 A The only time I've ever seen billing
16 records regarding Madison -- I mean, other than
17 perhaps when I filled out a time entry or something
18 back at the time I filled it out, but back in the
19 '83, whatever, '85 range, the only time I've ever
20 seen them was when Alden showed them to me, and in
21 one instance, they showed me a billing record when I
22 testified in front of a grand jury, and that was it.

34

1 Q Did you ever see any Madison files,
2 focusing not on the billing records, but just Madison
3 Guaranty files?

4 A No.

5 Q Do you recall whether you ever checked out
6 any Madison Guaranty files from the Rose Law Firm
7 storage facility?

8 A Oh, no. I was long gone from the Rose Law
9 Firm by all of this, and I really didn't have
10 anything to do with any of that sort of thing.

11 MR. COLE: We're going to go off the record
12 for a moment so the court reporter can give something
13 to someone.

14 (Discussion off the record.)

15 BY MS. FISHER:

16 Q I just want to ask one final question.

17 A Okay.

18 Q Since you left the Rose Law Firm in 1988,
19 have you spoken to anyone other than your counsel
20 about the Rose Law Firm's representation of Madison
21 Guaranty?

22 MR. ATKINS: Are you also excluding the

1 grand jury?

2 MS. FISHER: Yes, I'm also excluding the
3 grand jury, thank you. I apologize.

4 THE WITNESS: Rose Law Firm's
5 representation of Madison Guaranty -- you know, I
6 really don't think so, not in any substantive event.
7 As you can probably imagine, this stuff is in the
8 newspaper, and I had 100 people ask me about that, if
9 I've had one, well, what did the Rose Law Firm really
10 do in the representation of Madison Guaranty, but I
11 mean, honestly, I just didn't really do enough work
12 on that to give any kind of a good answer other than
13 what I've read in the newspaper.

14 BY MS. FISHER:

15 Q Did you discuss the matter with Mr. Massey?

16 A Oh, I probably had lunch -- Rick and I are
17 still friends and I'm sure I've had lunch with him a
18 time or two, but he and I have avoided any kind of
19 substantive discussions about it.

20 Q Have you been contacted by anyone from the
21 White House regarding this matter?

22 A No.

1 Q Have you been contacted by anyone else from
2 the Rose Law Firm regarding this matter?

3 A Other than Ron Clark, who let me know that
4 people were wanting to talk to me and put me in touch
5 with Alden.

6 MS. FISHER: That's all the questions that
7 I have. Thank you so much. Mr. Cole might have a
8 couple questions.

9 THE WITNESS: Okay.

10 MR. COLE: I do have one or two things and
11 I'll try to be as brief as I can. I don't want to
12 keep you on the telephone for a long time.

13 EXAMINATION

14 BY MR. COLE:

15 Q One comment you made did interest me. If I
16 understood you correctly, you indicated that an
17 attorney at the Rose Law Firm at the time we're
18 talking about, which essentially is 1985 into early
19 1986, compensation was based upon the hours that they
20 billed to a client; is that correct?

21 A And that's somewhat of a generalization,
22 but my recollection is that the main -- the main --

1 of course, compensation was mainly derived for how
2 many hours that you were actually paid on, in other
3 words, what you billed and then subsequently what was
4 collected, but that was kind of what went into your
5 pot, and then there was a five-year average of how
6 much that was over a five-year period, and they did a
7 mathematical computation, and they might give some
8 extra award for community service or whatever, but
9 that was basically it.

10 Q To keep this as simple as we can for
11 purposes of the record, am I understanding you
12 correctly that unlike at some law firms where a
13 lawyer who brings in business, then is given
14 compensation for the work that other lawyers do for
15 that client even though the lawyer who brought in the
16 work may not bill time, that was not the way the Rose
17 Firm's compensation worked at the time?

18 A I can't say to you just categorically that
19 when the compensation committee met, that they didn't
20 give some credit for that, but I would say it was 90,
21 95 percent based on the work that was done by the
22 attorneys.

1 Q At least 90 to 95 percent of the time, if a
2 lawyer wanted to make money from a client, the lawyer
3 needed to bill his or her own time to the client?

4 A That's correct. He needed to be working.

5 Q And collected?

6 A And collected.

7 Q So if a client gave the Rose Firm an
8 advance against fees that would be billed at a
9 subsequent time, would the partner who was the
10 billing partner obtain any compensation from that if
11 the time was not actually billed?

12 A I'm sorry. I didn't --

13 Q I'm trying to think how to phrase this so
14 that it's clear.

15 A If I understand -- is your question if
16 somebody negotiates a retainer and the money comes in
17 and you're the billing attorney on that, and there's
18 actually no work done, but money is kept, who gets
19 credit for it?

20 Q The distinction I'm trying to make is
21 people mean different things when they say a
22 "retainer," and in some instances, the payment is a

1 retainer and the law firm keeps money whether work is
2 actually done or not, and I would call that a true
3 retainer, and in contrast to that, you would have an
4 advance on fees where a client pays money to a law
5 firm and then the law firm essentially draws against
6 that payment as work gets done. Is that a
7 distinction that you're familiar with?

8 A Yes.

9 Q And in the latter instance, what I referred
10 to as an advance on fees, then a client -- if a
11 client made an advance on fees to a law firm, the
12 billing partner would not get any compensation for
13 that unless time was actually billed by that lawyer
14 under the Rose system?

15 A If I had been the billing attorney, and I
16 can't say that there are some differences between
17 billing attorneys because there are a lot of
18 different billing attorneys in the firm. If I had
19 been the billing attorney on an account, and I had
20 taken in, say, a thousand dollar retainer and one of
21 my partners had done a thousand dollars worth of work
22 and charged it against that retainer, I would have

1 given all thousand dollars to the attorney that did
2 the work on it.

3 Q Could a first-year associate be the billing
4 attorney on a client account at that time, 1985-1986,
5 at the Rose Firm?

6 A I don't believe so. I'm not -- I really
7 don't believe that would have happened. They're
8 under pretty tight supervision.

9 Q Do you know of any instances where
10 associates who were not partners or members of the
11 firm were billing attorneys on client accounts?

12 A Maybe after they had been there a long time
13 possibly, but normally it was a partner that was the
14 billing attorney. I think I probably had a couple of
15 instances as a senior associate where I was billing
16 attorney on the matter that I brought in.

17 Q But no first- or second-year associates
18 would have been billing attorneys on client accounts?

19 A I didn't see that happening, not in my
20 experience. I can't say that it didn't ever happen
21 somewhere, but not in my experience.

22 Q With regard to the lunch that you and

1 Mr. Massey had with Mr. Latham, you indicated that
2 your recollection was that Mr. Massey had the idea of
3 setting up the lunch?

4 A I think that's right, yes.

5 Q Do you know whether he did that on his own
6 initiative or whether someone in the firm suggested
7 that he do that?

8 A My general recollection is that during the
9 course of our classroom work, both of us got to be
10 fairly impressed with John Latham because he was an
11 older student and he had financial and business
12 background, and he just understood more about
13 business and finance and securities law than most of
14 the students in there, and so he was someone that,
15 for example, that I called on more frequently and he
16 would come up after class and ask questions about
17 things.

18 So he was someone that I think I probably
19 mentioned to Rick. This guy is pretty sharp. He's
20 one of our better students and that sort of thing,
21 and I'll generally call Rick and say you know, after
22 the class is over and the paper is graded and

1 whatnot, we can go out to lunch with him and see
2 maybe if we can do some business over there. That's
3 kind of my general recollection of how that
4 developed.

5 Q Do you know whether Mr. Latham ever asked
6 Mr. Massey questions about securities law matters
7 relating to Madison Guaranty or Madison Guaranty's
8 business?

9 A No, not really. Normally, it was either I
10 was there or he was there. We never really taught it
11 together. I wouldn't have been privy to those
12 conversations.

13 Q And you indicated that after the luncheon,
14 Mr. Latham's comment about Mr. McDougal, that you
15 didn't pursue the matter any further in terms of
16 pursuing Madison as a client?

17 A Right.

18 Q Do you know whether Mr. Massey, after
19 hearing Mr. McDougal's name, took any further action
20 in terms of trying to find anyone who knew
21 Mr. McDougal or doing anything further?

22 A If he did, I didn't know about it.

1 MR. COLE: I don't have anything else.

2 MS. FISHER: I just have a couple
3 follow-ups, if you don't mind, and I'll keep it
4 brief.

5 EXAMINATION

6 BY MS. FISHER:

7 Q Am I correct that the billing attorney at
8 the Rose Law Firm was the one responsible for
9 deciding who got what amount of fee credits for a
10 particular matter?

11 A Well, I don't know that there were any hard
12 and fast rules on that. The billing attorney
13 prepared the bills. For example, when I was billing
14 attorney on a matter, and I had three or four
15 different partners that were working with me on a
16 matter, someone helping me on tax matters, that kind
17 of thing, my normal practice was to go to the other
18 partners and say okay, here's what I propose to do.
19 We'll either give them -- because sometimes we didn't
20 have an hourly rate.

21 Sometimes we had a negotiated fee or I
22 would either bill it out at a straight hourly rate as

1 to what everybody had and if I made any deviation
2 from that, whether we were getting to charge a fixed
3 fee and dividing it up or whether we were having to
4 discount a fee and I was having to adjust these
5 downward, I would have talked to the other partners
6 on the matter and discussed with them how to bill the
7 client and especially tell them if they weren't
8 getting paid their normal rate.

9 So for me, it was more kind of a collegial
10 exercise, and other times, other partners would just
11 not do that as much, and you would just kind of see a
12 credit come across unless you went and compared it
13 against your billing records. You didn't really know
14 how it related.

15 Q Let me give you an example and see if I can
16 just sharpen this up a little bit. If the partner
17 was the billing partner and they had an associate
18 working on that matter so it was just the associate
19 and the partner, and at the end of the day the bill
20 comes in, it's the partner, is it not, that
21 determines what amount of fee credits are going to go
22 to the associate and what amount of fee credits are

1 going to go to the partner, the billing partner? Is
2 that correct?

3 A Usually they would have final say, even in
4 that instance. If I had an associate that had a lot
5 of hours on a matter, and I just didn't feel like it
6 was justified, and we could afford to charge the
7 client that, I would go talk to the associate and
8 tell them I was going to write down their hours, and
9 that would be my choice and my ultimate decision to
10 do that because I was the partner that was handling
11 that matter. That was my client.

12 Q Thanks. That's exactly what I was looking
13 for.

14 Let me just ask you an unrelated question.
15 Did you teach that securities law class prior to
16 1985?

17 A Well, I taught over there, I think, four
18 separate times, I believe, and I taught corporations
19 and sales, and I think I taught securities twice, and
20 I believe this course was the first time, not the
21 second time. My problem is I don't really -- I
22 didn't really keep any records of when I taught and

1 when I didn't. It's been a long time ago, but I'm
2 pretty sure it was the first time I had taught it.

3 Q What school was this at?

4 A It was the University of Arkansas law
5 school at Little Rock. There's also a University of
6 law school at Fayetteville, which is where I
7 graduated, but this was at the Little Rock law
8 school.

9 Q And do you know whether they were on basis,
10 a year-long basis -- let me tell you what I'm getting
11 at, just to try to -- you testified before that this
12 lunch occurred after the papers were done --

13 A Yes.

14 Q -- which suggests to me it was towards the
15 end of the semester.

16 A I think that's right, and I'm kind of vague
17 on that, but I think it was probably -- it was around
18 Christmas and maybe we had that lunch sometime in
19 February or March kind of thing. I'm just guessing
20 at that.

21 Q Okay. That's helpful. I appreciate that.

22 A It was a semester system.

1 Q And the class that you taught ended around
2 Christmastime?

3 A Yes.

4 MS. FISHER: I appreciate your time today,
5 Mr. Knight.

6 MR. COLE: I hate to do this, but I'm
7 confused about something now.

8 THE WITNESS: Okay.

9 EXAMINATION

10 BY MR. COLE:

11 Q In the questions Ms. Fisher asked you about
12 the fee credits and how a partner could allocate
13 those fee credits, it wasn't clear to me in your
14 response whether you were talking about the bill that
15 would go out to a client and how much a client would
16 be billed or whether you were talking about the
17 compensation that partners and associates of the firm
18 ultimately would be paid based upon that work.

19 A Okay. The way it works is everybody
20 reports their fees, and then you get -- at the end of
21 the day, you get a computerized printout of all fees
22 from all attorneys and paralegals and whatnot that

1 have been charged to that matter. And you're the
2 billing attorney and you work off that printout to
3 prepare a statement. So say, for example, that you
4 had an associate that worked 100 hours and you felt
5 like that that work just wasn't justified, and you
6 cut the associate's hours down to 50 -- I'm not
7 saying you do that -- but if you did that, then the
8 associate -- then when the bill is paid, then the
9 associate, of course, only gets paid for 50 hours and
10 that would be the primary basis of their
11 compensation, not the 100 hours because you didn't
12 get paid for that.

13 Q So at that time at the Rose Law Firm,
14 associates weren't paid a base salary. How much they
15 were paid was determined based on the number of hours
16 they billed and then were collected in a year?

17 A Well, actually, the first few years that
18 you were an associate, everybody was kind of
19 lock-stepped and all of the classes were kind of
20 brought in together and the bonuses that were paid at
21 the end of the year tended to be about the same, and
22 then as associates had been there longer and you

1 started to notice significant differences in their
2 performance levels and the amount that they billed,
3 you would gradually over time start to see more
4 significant differences in their bonuses. Their
5 salaries would normally stay the same, but their
6 bonuses would get larger for people who were more
7 productive. And the five-year floating average that
8 I was talking about, fees billed and collected, that
9 was really more of a partner's compensation
10 structure.

11 Q That's what I understood, and I think we've
12 made this more complicated than necessary by trying
13 to very carefully speak in generalities here, and I
14 would like to actually make it specific since we all
15 know what we're talking about.

16 In the case of the Madison Guaranty
17 representation in 1985 and 1986 where Mrs. Clinton
18 was the billing partner and Mr. Massey was a
19 first-year associate doing work on that client
20 account, would Mr. Massey's compensation have been
21 affected at all by how much the client was billed or
22 how many hours he billed to the client?

50

1 A Probably very little, if any.

2 Q And by that, you mean perhaps if he had
3 worked a great deal or done an exceptional job,
4 someone would have recognized that --

5 A If he had done an exceptional job and at
6 the end of the year Hillary, or whatever partner, had
7 said boy, Rick Massey really did a great job for me
8 on this matter, that might have helped him get a
9 larger bonus.

10 Q That would be a discretionary bonus?

11 A Yes.

12 Q And I understand that. So we can put aside
13 Mr. Massey. Focusing on Mrs. Clinton, and this goes
14 back to the questions I asked you earlier, if I
15 understand your testimony, as a partner, her
16 compensation would have been based on a five-year
17 average of her essentially collected billings; is
18 that correct?

19 A That's essentially correct. And I hate to
20 keep qualifying this because, as you can probably
21 gather by now, the Rose Law Firm has an incredibly
22 complicated financial compensation arrangement. But

1 in addition to the five-year floating average thing,
2 at some point in there, and I'm not sure when, there
3 was a base compensation that was established for
4 partners, and I really don't remember when that was,
5 primarily because I was always above it.

6 So it could have been that some partners
7 hit on the base compensation level even though their
8 billing and collections wouldn't have warranted that
9 on a pure mathematical basis.

10 Q I understand. And what I'm getting at is
11 whether Mrs. Clinton's income would have been
12 affected by the number of hours that someone other
13 than she, and in this case we're talking about
14 Mr. Massey, recorded to that client.

15 A Probably not.

16 Q That's what I've been trying to get at.

17 A Yes.

18 Q And the same, I take it, would be true even
19 if other partners recorded time and collected time on
20 that matter; that would not have affected
21 Mrs. Clinton's five-year average and her
22 compensation?

1 A Probably not. I mean, I think again, there
2 was that 5 to 10 percent sort of slack in the joint
3 that if you -- to enable someone that really did
4 bring in a lot of business to maybe make some
5 adjustment, but the basic structure was fee-driven,
6 how much work you did, billed and collected.

7 Q And I understand what you're saying, unlike
8 some law firms where "fee-driven" would mean fees
9 that a billing partner was responsible for, whether
10 or not the billing partner actually did the work.
11 When you say "fee-driven," you were talking about
12 hours billed and then collected by that lawyer?

13 A Yes, that's correct.

14 Q So if Mrs. Clinton was the billing partner
15 on the Madison Guaranty account and other lawyers did
16 work on that account, those hours that were recorded
17 would not have affected Mrs. Clinton's compensation
18 other than as you've testified in the discretionary
19 aspect?

20 A Yes, I think that's correct to say that.

21 Q That's what I was trying to get at. Thank
22 you very much.

1 A Sure.

2 MR. COLE: I don't have anything further.

3 MS. FISHER: That's it. I appreciate you
4 doing this on a Friday afternoon, both of you.

5 MR. ATKINS: Thank you, folks.

6 (Whereupon, at 5:20 p.m., the deposition
7 was concluded.)

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DAVID A. KNIGHT

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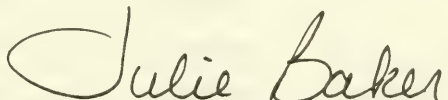
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

54

I, JULIE BAKER, the officer

before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires

SEPTEMBER 30, 1997

DEPONENT DAVID A. KNIGHT, April 26, 1996

ERRATA

<u>PAGE</u>	<u>LINE</u>	<u>CHANGE FROM</u>	<u>CHANGE TO</u>	<u>REASON</u>
6	4	Firm in that time until	Firm until	transcription error ("TE")
12	1	work	worked	TE
12	3	work on	work or	TE
12	20	financing	financings	TE
13	4	and information	and give him information	TE
13	10	best much my	best of my	TE
17	12	and had been	who had been	TE
17	19	Madison and	Madison -- but	TE
18	18	Mr. Gerard	Mr. Giroir	TE
19	11	can't tell	can't recall	TE
23	12	the bank	Worthen Bank	TE
27	11	would be unusual	would not be unusual	TE
28	8	had conference	had a conference	TE
34	9	by all	by the time of all	TE
37	1	derived for	derived from	TE
39	16	are some	are not some	TE
40	7	They're	They were	TE
27	12	given any	any given	TE

DEPONENT DAVID A. KNIGHT (Cont'd)

ERRATA

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**DEPOSITION OF THERESA L. POCKRUS
IN RE: S. RES. 120**

FRIDAY, APRIL 26, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of THERESA L. POCKRUS, called
for examination pursuant to notice of deposition, at 11:10 a.m. in
Room 640-A of the Hart Senate Office Building, before JULIE
BAKER, a Notary Public within and for the District of Columbia,
when were present:

H. CHRISTOPHER BARTOLOMUCCI, Esq.
Majority Associate Special Counsel
GLENN F. IVEY, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

CONTENTS

WITNESS**EXAMINATION****Theresa L. Pockrus**

by Mr. Bartolomucci	5
by Mr. Ivey	27
by Mr. Bartolomucci	36
by Mr. Ivey	44

P R O C E E D I N G S

MR. BARTOLOMUCCI: Ms. Pockrus, we're on the record. Before we begin the questioning, there's some preliminary information I need to impart to you. This is a deposition conducted pursuant to Senate Resolution 120, which establishes a Special Committee to investigate Whitewater Development Corporation and related matters.

This deposition is in advance of public hearings. You may or may not be called to testify at those hearings. I'll be asking you questions under oath. If you don't understand a question, let me know and I'll rephrase it. And tell me if you need a break at any time.

MS. POCKRUS: Okay.

MR. BARTOLOMUCCI: Our court reporter will prepare a transcript of the deposition and your deposition will be treated as confidential until the commencement of hearings. Prior to that time, you will receive an opportunity to review your deposition to make note of any minor corrections, and if you are called to testify at a public hearing, you'll be

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provided with a copy of your deposition transcript.

I believe I advised you that you could have counsel if you wanted to.

MS. POCKRUS: Yes, you did.

MR. BARTOLOMUCCI: Just so you know, we note objections to the forms of questions for the record and it's also permissible to object to questions on grounds of privilege or scope. The Committee chairman ultimately rules on any objections.

I'm going to have the court reporter swear you in now, but before we do, I want to note for the record that we discussed beforehand the fact that this is a phone deposition and we were all agreed to swear you in over the phone.

MS. POCKRUS: Yes.

MR. BARTOLOMUCCI: Do you want to go ahead and swear in the witness.
Whereupon,

THERESA L. POCKRUS

was called as a witness and, having first been duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. BARTOLOMUCCI:

Q Would you please state your full name for our record.

A My name is Theresa, spelled T-h-e-r-e-s-a, Pockrus, P-o-c-k-r-u-s.

Q And what's your present work address?

A My present work address is 215 East Central, Bentonville, Arkansas 72712.

Q Okay. And would you give us a fast summary of your educational background.

A I graduated from Rogers High School, Rogers, Arkansas in 1971. I graduated from the University of Arkansas with a BS/BA majoring in finance and banking in 1977, and I am studying for my master's degree currently.

Q And what is your present occupation?

A I am an elected official serving as the Benton County tax collector for Benton County,

Arkansas.

Q And would you describe for me your association with the Bank of Kingston or Madison Bank and Trust?

A I was hired by Madison Bank and Trust in October of 1981 as a consultant. I visited the bank approximately two days a month. I went full-time in June of 1982 as executive vice president, and I left Madison Bank in March of 1983.

Q You never worked at Madison Bank at the time it was known as the Bank of Kingston?

A No. They had already changed their name before I came on.

Q During the time that you were executive vice president, what generally were your duties?

A Most of my duties involved the daily operations of the bank, making small loans, just basically handling the general operations of the bank. Prior to when I went on full-time, Susan McDougal and James McDougal, Steve Smith and his wife, Julie, I think her name was, were in there basically full-time running the operation. And when

1 I came in, they weren't in there on the daily
2 operations of the bank, when I came in at the end of
3 June of '82, 1982.

4 Q Okay. So the persons you named, the
5 McDougals and Mr. Smith, you say, were basically
6 running the bank prior to the time that you came on
7 board as executive vice president?

8 A Right.

9 Q And thereafter, they weren't running it?

10 A Well, they were still -- they were still
11 there. How do I put this? They were not there on a
12 daily basis. Now, they would come in on occasion,
13 and I only had a loan limit of \$5000, so anything
14 over \$5000 they had to approve or had to be approved
15 by the board of directors. I took loan applications
16 and submitted loan requests to the board or to Jim
17 McDougal. But they weren't there every day sitting
18 there taking the phone calls and answering people's
19 questions and making the daily investments or
20 whenever investments were made, buying and selling --
21 investments, I mean buying and selling securities
22 like Treasury bills or things like that. They

1 weren't there doing that, particular day-to-day
2 operations. They were still involved in making loans
3 on occasion, but I don't know -- does that answer
4 your question?

5 Q I think it does.

6 A Okay.

7 Q And during this time period, the McDougals
8 and the Smiths had a controlling interest in the
9 bank; is that right?

10 A That's correct.

11 Q Who hired you at the bank?

12 A James McDougal.

13 Q Is that true both with respect to the time
14 during which you were consultant and then later when
15 you were hired as executive vice president?

16 A Yes.

17 Q Did you report directly to Mr. McDougal or
18 to someone else?

19 A I basically felt that I reported to Jim
20 McDougal and then to the board.

21 Q Do you have a sense of how many employees
22 there were at the bank in --

1 A Yes. There were only basically four
2 full-time employees, myself, Gary Bunch, a lady named
3 Carla Hathorn, Belinda Howard -- I'm sorry, there
4 were five -- and Geanine Villines.

5 Q What was the last name?

6 A Villines, V-i-l-l-i-n-e-s.

7 Q Mr. Bunch was the president of the bank; is
8 that right?

9 A Yes.

10 Q And you told me a while ago that you
11 managed -- you had a loan portfolio?

12 A The majority of the loan portfolio was
13 already established before I took -- before I became
14 executive vice president. And what loans -- the only
15 loan authority I had was up to \$5000.

16 Q Now, I take it that by now, you're aware of
17 the loan that Mrs. Clinton had at Madison Bank?

18 A Yes.

19 Q I guess actually the loan was taken out in
20 the name of Hillary Rodham.

21 A Right.

22 Q But you're aware of that loan?

1 A Yes.

2 Q And were you in charge of that particular
3 loan?

4 A Well, it was my responsibility to write
5 letters to folks whose loans were past due. So
6 that's what I did. I wrote letters to everyone whose
7 loans were past due because I don't know if it was
8 right around that time or shortly -- but the FDIC --
9 we knew the FDIC would be coming in before too long,
10 and they don't like to see a whole lot of delinquent
11 loans on the books because I was an FDIC examiner for
12 four years after I graduated from the university. So
13 I was aware of how they -- of what the FDIC looked
14 for and what they would criticize.

15 And so that was one of the reasons I was
16 hired, was to try to help clean up some situations
17 that may not have been looked favorably upon by the
18 FDIC.

19 Q Before we get to the letter that you wrote,
20 let me ask you, did you have anything to do with the
21 making of the loan?

22 A Of this particular loan?

1 Q Right.

2 A No. It was already -- no. It was already
3 in existence before I became executive vice
4 president. It was already in existence before I
5 became a consultant in October of '81.

6 Q I guess -- just so we're all working with
7 the same information, I guess it's my understanding
8 that the loan was made in December of 1980, so that
9 would have been before you came to the bank at all?

10 A Right.

11 Q Now, the matter that you were just alluding
12 to, there came a time when Mrs. Clinton's loan became
13 past due, and you took some action as a consequence?

14 A Yes.

15 Q Can you describe those events?

16 A Well, basically, I wrote her a letter
17 stating that the loan was past due and that something
18 needed to be done to take care of the past due
19 status, and that the current arrangements of interest
20 payments would not even pay the loan. So in effect,
21 by the time the loan matured -- when the loan was
22 going to mature, they would actually owe more than

12

1 they had originally signed a note for, which as a
2 bank examiner and as a bank president, that's not a
3 very good way to handle business. When people make
4 payments, you want them to make payments at least of
5 the amount of interest, even if they're not going to
6 be paying on any of the principal.

7 Q Before this time when the loan was past due
8 and you wrote the letter, were you aware that
9 Mrs. Clinton had a loan at the bank?

10 A I was not aware that Hillary Rodham was the
11 governor's wife, and I don't know that that would
12 have made any difference anyway.

13 Q So you may have known that Hillary Rodham
14 had a loan, but you didn't connect that name as being
15 the wife of the governor?

16 A Right.

17 Q And I guess actually in 1982, if I have my
18 chronology right, I think Bill Clinton wasn't the
19 governor?

20 A That's true, right. The former -- let me
21 put it this way. I did not realize that Hillary
22 Rodham was Bill Clinton's wife.

1 Q Right. He had been governor, but lost a
2 1980 race.

3 A Right, and was in the process, I believe,
4 of running for reelection in '82.

5 Q Okay. So you noticed the loan was past
6 due, and you wrote a letter. I sent you two
7 documents this morning which I'll identify for the
8 record. One is DKRT 700318, and one is DKRT 400134.
9 Both of these documents have been publicly released
10 in the past by the House of Representatives, which is
11 why there wasn't a problem with us sending them to
12 you.

13 The first of these documents, the letter
14 dated August 5, 1982, that's the letter that you sent
15 to Ms. Rodham?

16 A Yes.

17 Q And this is a letter that states the note
18 is currently reflecting as past due as defined by
19 federal and state authorities in the second
20 paragraph?

21 A Yes.

22 Q Did you talk to anyone at the bank or

1 discuss the matter with anyone at the bank before you
2 sent out the letter?

3 A No.

4 Q After you sent the letter, you had some
5 communication with Mrs. Clinton; correct?

6 A Yes. She returned -- well, she sent a
7 letter on August 11, 1982. It indicates in the
8 letter that she sent a phone message, which is a
9 possibility. I don't remember visiting with her over
10 the phone, other than she might have sent a message
11 confirmed by the letter of 1982.

12 Q You don't remember if she left you a
13 message or not?

14 A I do not remember, no.

15 Q You told me a minute ago that one reason
16 you were concerned about this loan is because you
17 knew the FDIC would be coming in for an examination.

18 A Right.

19 Q You were generally trying to keep the loans
20 in good order?

21 A That's correct.

22 Q Did you have any discussions with either of

1 the McDougals about this particular loan or the fact
2 that the examiners were coming in?

3 A Not that I recall and --

4 Q Did you want to add something?

5 A I was just going to say as a former FDIC
6 examiner, any delinquent loans in my opinion was a
7 potential problem.

8 Q Now, I see in your letter that it indicates
9 that the loan matured on June 1, '82.

10 A Right.

11 Q That means that it was due to be paid off
12 on that date?

13 A That's correct.

14 Q Now, we understand the original loan to
15 have been due on December 16th, '81. So we've
16 assumed that there was an extension of the loan at
17 some point. Do you know anything about that?

18 A I do not remember, but that would be the
19 most logical thing that would have occurred. But as
20 far as being able to confirm exactly that that's what
21 happened, I would not be able to do that. But
22 generally, if a loan has an original maturity date,

16

1 and then has another maturity date, there has been an
2 extension agreement signed.

3 Q You don't have any personal knowledge about
4 that?

5 A But I have no proof of that, right.

6 Q And I don't think we've seen any documents
7 to that effect. What did you do after you got the
8 letter signed by Hillary Rodham?

9 A I believe Mr. McDougal had a copy of the
10 letter also and basically his response to me was that
11 he would take care of it. It was during that time
12 that the McDougals were in the process of purchasing
13 Woodruff County Savings and Loan, which later became
14 Madison Guaranty, and there were several loans at
15 Madison Bank that were subsequently moved to Madison
16 Guaranty and, in particular, after the FDIC had come
17 in and given its report.

18 Q McDougal told you that he would take care
19 of the loan?

20 A Well, that he would -- he told me that he
21 would take care of it. Now, what "it" meant, I don't
22 know. I guess I don't remember at this point what

1 "it" meant, but the impression that I got was that I
2 would not be doing anymore corresponding with
3 Mrs. Hillary Rodham Clinton.

4 Q Can you remember anything else that he told
5 you at that time other than that he would take care
6 of it?

7 A No, I don't, not specifically.

8 Q And you had no further communication with
9 Mrs. Clinton on the subject?

10 A Right.

11 Q Did you come to learn what happened with
12 the loan after McDougal said he would take care of
13 it?

14 A I believe it was -- shortly thereafter that
15 it was transferred to Madison Guaranty.

16 Q It was certainly transferred. I'm going to
17 try to help you out here. It's our understanding
18 that the loan was transferred to the Security Bank of
19 Paragould in October or September of '83. Is it
20 possible that it was transferred to a bank other than
21 Madison Guaranty?

22 A That's a possibility. It's also a

1 possibility that there was an extension agreement
2 signed also within a very short period of time after
3 that.

4 Q That is a Madison Bank --

5 A Madison Bank, right.

6 Q -- extension agreement?

7 A Right, which would have taken it out of the
8 delinquent status. If they extended it, I don't know
9 if they would have extended it for six months or a
10 year. I do not remember. I wish I did.

11 Q Now, why do you believe that the loan was
12 transferred to Madison Guaranty?

13 A Because there were several loans that were
14 transferred to Madison Guaranty that the FDIC had
15 come in and criticized at Madison Guaranty.

16 Q Did you have any discussion with
17 Mr. McDougal about the loan being shifted?

18 A No.

19 MR. IVEY: Which loan are we talking
20 about?

21 MR. BARTOLOMUCCI: I was referring to the
22 Madison Bank loan.

1 THE WITNESS: Was there any discussion with
2 me about the loan being shifted? If he and I
3 discussed that?

4 BY MR. BARTOLOMUCCI:

5 Q Right.

6 A No.

7 Q According to the bank records that we have,
8 the loan at Madison Bank was finally retired in
9 October of '83 with a payment in the amount of almost
10 \$5800, but the records don't reflect who made the
11 payment. You don't have any idea who that would have
12 been, do you?

13 A No, I do not. That was in October of '83?

14 Q That's right.

15 A I left the bank in March of '83.

16 Q So you weren't even there then?

17 A I wasn't even there then, right.

18 Q Let's talk about the scrutiny that the bank
19 came under by the federal regulators. It's our
20 understanding that in September of '82 the FDIC
21 commenced an examination of the bank and that this
22 led in January of '83 to the issuance of a notice of

20

1 charges by the FDIC and that among other things, the
2 notice of charges criticized the amount of Madison
3 Bank's out-of-territory loans?

4 A Right.

5 Q Is that consistent with your recollection?

6 A Yes.

7 Q What else do you remember about the
8 examination of the bank and the criticism of the
9 bank's lending practices that occurred?

10 MR. IVEY: Well, let's go off the record
11 for a second.

12 (Discussion off the record.)

13 BY MR. BARTOLOMUCCI:

14 Q Sorry about the delay there, Ms. Pockrus.

15 A That's all right.

16 Q Were you aware that in January of 1983, the
17 FDIC issued a notice of charges expressing the view
18 that Madison Bank had engaged in poor lending
19 practices and criticizing, among other things, a loan
20 to Whitewater Development Company?

21 A I knew that the FDIC was quite disturbed at
22 the lending practices at Madison Bank and Trust

1 because myself and Gary Bunch and Howard, also known
2 as Rusty, Cain -- and I think there was one other
3 person, but I'm not sure who it was -- flew from
4 Springdale to Memphis, Tennessee to visit with the
5 upper management of the FDIC at the regional offices
6 in Memphis, and you don't do that unless there are
7 some serious problems.

8 As a former FDIC examiner, I don't know if
9 what the FDIC said was considered to be a
10 cease-and-desist order, but it may have been the
11 preliminary steps of being a cease-and-desist order
12 of certain lending practices at the bank, and I was
13 familiar with those as an FDIC examiner, and the FDIC
14 was concerned about the out-of-territory lending. It
15 was concerned about the amount of lending that was
16 going on that was unsecured, and it was concerned
17 that the loans that had been made were not going to
18 be paid in the manner that they had originally
19 expected to be paid when they were made.

20 Does that answer your question?

21 Q It does, and just to help you out a little
22 bit, it's our understanding that there was a

22

1 cease-and-desist order which was issued in April of
2 '83, which would have been just a little bit after
3 you left the bank, so it's not surprising to me that
4 you didn't have a clear memory of that fact.

5 A It's my understanding of an FDIC
6 cease-and-desist order that you are to cease what you
7 are doing and to straighten out what you've already
8 done.

9 Q What would have been Madison Bank's lending
10 area?

11 A Most generally, Madison Bank's lending area
12 should have been Madison County, Arkansas. Kingston
13 itself is a town -- is a village of approximately 200
14 people. Huntsville is the next city, and it is 20
15 miles away. As the executive vice president of that
16 bank, if I had been defining the lending area, it
17 would have been confined to Madison County and in
18 particular, those people who had depository
19 relationships with that bank.

20 Q Would the loan to Hillary Rodham have been
21 an out-of-territory loan?

22 A Absolutely.

1 Q Because she was a borrower in Little Rock,
2 and the loan was secured by property in Marion
3 County?

4 A That is correct, and not only that, she did
5 not have any sort of depository relationship with the
6 bank.

7 Q Can you explain for me, in banking terms,
8 what the problem with excessive out-of-territory
9 lending is?

10 A Well, it's real hard to collect on your
11 collateral if the loan goes bad, and in particular,
12 unsecured loans. I don't believe this particular
13 loan was an unsecured loan, but there were other
14 instances of unsecured loans.

15 And the other thing is that in making
16 out-of-territory loans, you are taking your
17 depositor's money and loaning it to folks who do not
18 reside basically in your territory, and so you're
19 taking money from the current area and giving it
20 elsewhere, which -- banks can do that, but it's not
21 necessarily a good practice to do. People put money
22 in their local bank so they will have the opportunity

24

1 to borrow that money, not somebody 200 miles away.

2 Q And the money goes outside of the local
3 community so there's no ripple effect on the local
4 economy?

5 A Correct. Several years ago, there was a
6 Community Reinvestment Act passed, and when you take
7 a local depositor's money and reinvest it out of the
8 area, you are not reinvesting in your community.

9 Q The cease-and-desist order we've talked
10 about, which for the record is a document numbered
11 DKSJN 001156, does order Madison Bank to cease and
12 desist from "extending credit outside of the bank's
13 trade area." It gives a couple of exceptions. Then
14 it goes on: "For the purpose of this order, the
15 bank's trade area is defined as all of Madison County
16 and the western half of Newton County within the
17 state of Arkansas."

18 So Mrs. Clinton's loan would have been out
19 of the bank's trade area within that definition;
20 right?

21 A That's correct.

22 Q And when this order says that the bank

1 could not extend credit, does that mean that Madison
2 Bank would have been barred by this order from
3 granting any more loan extensions?

4 A That's what the order was intended to do.
5 That's what an order is intended to do, yes, is to
6 bar them from making any more loans, and the result
7 of making additional loans out of territory could be
8 the termination of FDIC insurance to the bank.
9 That's the basic penalty for continuing to do things
10 that a cease-and-desist order orders you not to do.

11 Q So subsequent to that order, when that loan
12 came due, it would have to be -- it would have to be
13 paid up; right, because no more extensions could be
14 granted?

15 A That should have been the interpretation of
16 that cease-and-desist order, yes.

17 Q Now, do you remember anything about the
18 loan that Whitewater Development Company had at
19 Madison Bank?

20 A No, I do not.

21 Q Were you even aware what Whitewater
22 Development Company was?

26

1 A No, I was not.

2 Q Were you even generally aware that
3 Mr. McDougal had any business dealings with Bill
4 Clinton?

5 A Was I generally aware that Mr. McDougal had
6 business dealings with Bill Clinton?

7 Q That's right.

8 A Yes.

9 Q What did you know about those business
10 dealings back in the early '80s?

11 A Anything specifically, I do not remember.
12 I knew that they were friends and that they had
13 business dealings together, but I could not give you
14 a litany of what business dealings they were involved
15 in together.

16 Q You were unaware that they were partners in
17 a real estate venture somewhere?

18 A Yes, I was unaware of it.

19 MR. IVEY: Can I see the cease-and-desist
20 order?

21 MR. BARTOLOMUCCI: Sure.

22 BY MR. BARTOLOMUCCI:

1 Q Did McDougal ever talk to you, or did you
2 ever hear him talk about his relationship with the
3 Clintons?

4 A There were occasions that we would discuss
5 politics, but to say specifically exactly what he
6 said, I can't help you there. Sorry.

7 Q Is there anything else about the loan that
8 Mrs. Clinton had at the bank that we haven't talked
9 about that you can add for us?

10 A Not on this particular loan, no.

11 Q This is on sort of a different topic, but
12 has anyone associated with the White House or the
13 Clinton presidential campaign contacted you to talk
14 about this loan?

15 A No.

16 MR. BARTOLOMUCCI: I think that's all the
17 questions I have right now. So I'm going to turn it
18 over to Mr. Ivey.

19 THE WITNESS: Okay.

20 EXAMINATION

21 BY MR. IVEY:

22 Q Good morning, ma'am. How are you?

1 A I'm fine.

2 Q I don't think I'm going to take too long,
3 but I wanted to follow up on some questions and see
4 if I could flush a few things out.

5 You just testified about the lending area
6 issue, and I wanted to see if I could go back and
7 follow up with you on a couple of things. You
8 mentioned, I think, the Community Reinvestment Act?

9 A Uh-huh.

10 Q And I assume you're referring to the
11 federal act?

12 A Right.

13 Q And you were speaking in terms of the act
14 as it was at the time this loan was made, or was it
15 existence at that time?

16 A Well, I was speaking in general. Let's
17 see, it was in the late '70s, I believe. Bert Lance
18 was involved in several banking things that were
19 investigated by Congress, and there was a lot of
20 regulation that came down as a result of those
21 investigations, and one of them was the Community
22 Reinvestment Act, because some banks were having a

1 tendency to loan moneys outside of their -- what was
2 considered market area. And so to try to avoid that
3 or to try to cut down on the amount of that, Congress
4 passed the Community Reinvestment Act to give banks
5 the incentive to loan in their market areas as
6 opposed to outside of their market area.

7 Q Okay. My recollection of CRA is that it
8 does attempt to encourage banks and financial
9 institutions to loan within a particular lending
10 area, but that it doesn't preclude entirely loans
11 outside of the lending area. Is that inconsistent
12 with your understanding?

13 A No. That's about the way I understand it.
14 It did not necessarily say you could not loan outside
15 of your investment area, but that it's more
16 advantageous to loan inside of your investment area
17 or your market area.

18 Q For the reasons you mentioned before?

19 A Right.

20 Q The ripple effect and the local depositors
21 having the benefit of their deposits and that sort of
22 thing?

30

1 A Yes.

2 Q Were you aware of -- actually, let me
3 strike that and rephrase it.

4 With respect to the cease-and-desist order
5 that you discussed earlier, DKS 001157,
6 Mr. Bartolomucci read part of it to you, I want to
7 read a bit more and make sure we're on the same page
8 here with respect to it and get your thoughts on it.

9 "It is ordered that Madison Bank and
10 Trust" -- blah, blah, blah -- "cease and desist from
11 the following unsafe or unsound practices. 1,
12 extending credit outside of the bank's trade area,
13 except in such instances, 1, where it is found by the
14 board of directors that such loans will be beneficial
15 to the bank."

16 Do you know if the loan that Mrs. Clinton
17 took out received any type of finding one way or the
18 other by the board of directors with respect to
19 whether it would be beneficial to the bank?

20 A I do not know.

21 Q The second exception that's listed here is
22 "and, 2, where such loans have received prior

1 unanimous approval of the board of directors."

2 Do you know if that's the case for the loan
3 we were discussing earlier? Do you know one way or
4 the other?

5 A I do not know.

6 Q "The finding required by 1 and the prior
7 approval required by 2 shall in connection with each
8 out-of-territory extension of credit be reflected in
9 the minutes of the board of directors. For the
10 purpose of this order, the bank's trading area is
11 defined as all of Madison County and the western half
12 of Newton County within the state of Arkansas." So
13 when you testified earlier that Mrs. Clinton's loan
14 was out of territory and that your understanding was
15 that the loan should not have been extended, you were
16 not aware of the exceptions that I read to you just a
17 moment ago?

18 A No, I was not.

19 Q Would that change your thoughts about loan
20 extension?

21 A No, it would not.

22 Q Why is that?

1 A Because I still considered -- I would have
2 recommended to the board that they not extend it. If
3 I had been in the position -- if I had been there as
4 executive vice president, I would not have
5 recommended it because it was still an
6 out-of-territory loan, and a \$5 million bank has no
7 business loaning money to people in Little Rock.

8 Q I understand your feelings there, but the
9 cease-and-desist order, you would agree, specifically
10 provides for that type of action to take place; in
11 other words, for the loan that she had to have been
12 extended; isn't that true?

13 A Right, but that would not preclude the
14 executive vice president or any of the bank officials
15 from discouraging it to be done.

16 Q I understand, but I guess the point I'm
17 trying to make or what I want to understand is
18 whether her loan extension would have been in
19 violation of the cease-and-desist order as I just
20 read it to you.

21 A I can't really answer that question because
22 I don't know, first of all, whether the board even

1 addressed it, and secondly, if they did address it,
2 whether it was unanimous, and whether or not the
3 board indicated how it would be beneficial to Madison
4 Bank which I think is in the first item of the
5 cease-and-desist -- it's the first exception.

6 Q Is it fair to say you wouldn't know if it
7 would be in violation of the cease-and-desist order
8 or not?

9 A Right, I do not know.

10 Q I had another question going back to the
11 issue of the transfer of the loan. I think you
12 testified at one point that you thought that this
13 loan that we're talking about, the loan that was made
14 to Mrs. Clinton, or Hillary Rodham at the time, I
15 believe you thought it was transferred to Madison
16 Guaranty Savings & Loan?

17 A I'm sorry. Can you reask that question
18 again.

19 Q Okay. I apologize.

20 A I've had my door closed but someone had to
21 come in my office, so I was trying to listen to you
22 and her at the same time and it did not work.

1 Q I understand. I know you have real work to
2 do down there, so I'll try and finish up shortly.

3 With respect to the testimony or comment
4 you gave about the transfer of Hillary Rodham's loan
5 to Madison Guaranty Savings & Loan, and then you also
6 mentioned it was possible that there was an extension
7 agreement signed -- but I just wanted to be clear on
8 that -- you were offering possible alternatives, but
9 you aren't exactly sure what happened with respect to
10 that loan?

11 A Right. I'm not exactly sure what
12 happened.

13 Q You also mentioned that there were several
14 loans that were transferred from Madison Bank and
15 Trust to Madison Guaranty, and that was criticized by
16 the FDIC examiners; is that correct?

17 A Yes.

18 Q Do you know if those loans had anything to
19 do with Hillary Rodham's loan?

20 A I would say that they did not, although
21 they -- at least one of them has something to do with
22 what's going on in Little Rock right now.

1 Q I'm sorry. You mean with respect to the
2 trial going on in Little Rock?

3 A Mr. Tucker's loan.

4 Q But did that have anything to do with the
5 Clintons' loan?

6 A No, it didn't. I said that previously, not
7 that I'm aware of anyway.

8 Q Yes, ma'am. With respect to the letter you
9 wrote to Mrs. Clinton on August 11, 1982, I think you
10 testified that you didn't know that Hillary Rodham
11 was married to Bill Clinton at the time you wrote the
12 letter?

13 A Right.

14 Q And the sending of this type of letter is
15 something you would have normally done with any
16 borrower under these types of circumstances?

17 A Right.

18 Q So Mrs. Clinton or Hillary Rodham, as she
19 was known at the time, didn't receive any special
20 treatment from you, I take it?

21 A No.

22 Q And after you received the letter that she

36

1 wrote back to you -- I'm sorry, that's the one dated
2 August 11, 1982, DKRT 1400134 for the record, you
3 basically followed the comments she made in the
4 letter there. She suggest you talk to the McDougals
5 who made the arrangements for the loan and if there
6 needed to be an increase in the amount of the
7 payments, that the McDougals would have to authorize
8 it, so you went to talk to Jim McDougal?

9 A Well, I don't remember if Jim came to me or
10 I went to him.

11 Q But you a conversation with Jim McDougal
12 about the issue?

13 A Right.

14 Q And he said he would handle it and you
15 didn't have anything to do with it after that point?

16 A No, I did not.

17 MR. IVEY: That does it for me. Thank you
18 very much.

19 MR. BARTOLOMUCCI: Ms. Pockrus, I have a
20 few follow-up questions.

21 EXAMINATION

22 BY MR. BARTOLOMUCCI:

1 Q After Mr. McDougal said he would take care
2 of the loan, take care of the problem, did the loan
3 continue to pop up as past due or as having matured?
4 I guess my question is, did whatever internal
5 flagging system the bank have continue to register on
6 this loan?

7 A I really cannot remember. I don't know if
8 it was still delinquent when the FDIC came in or not.

9 Q Now, you note in your letter of August 5
10 that you'd be receiving monthly payments of \$285 and
11 that the interest was accruing at a rate of \$373 a
12 month, so the payments being made didn't even cover
13 the interest that was being generated?

14 A That's right.

15 Q What kind of action did you think it
16 necessary to be taken on the loan -- what sort of
17 arrangement were you thinking about in terms of
18 bringing the loan back into line?

19 A Well, the minimum amount that should have
20 been done could have been -- the minimum amount that
21 could have been done to bring the loan back into line
22 would be to sign an extension agreement and get the

1 monthly payments to at least paying the interest,
2 although my personal feeling was that the loan should
3 have been taken out of the bank all together.

4 Q Now, we have a record of -- we have a loan
5 history of the loan. Again, you wrote your letter in
6 August of '82. Our records reflect that in September
7 of '82, the next month, there was a payment of almost
8 \$700, but then thereafter, the payments went back to
9 \$285. There was a payment in that amount in October
10 and November, appears to have been no payment in
11 December. Then there were two in January, one in
12 February, one in March. With the exception of that
13 \$700 payment in September of '82, all the subsequent
14 payments continued to be just \$285.

15 Do you consider that to have been taking
16 care of the loan?

17 A Well, probably what happened in September
18 of '82 with the payment of \$700 is they brought the
19 interest current and issued an extension agreement.
20 That's probably the amount of interest that accrued
21 through the date of extension, in addition to the
22 \$285 that they were making every month. Paying \$285

1 a month interest on the loan, I don't believe, was
2 actually taking care of the loan.

3 Q So if you had still been managing the loan
4 at that point, you would have wanted to see more done
5 than the \$285 a month?

6 A Right, and there were times that I
7 discussed, not necessarily with this particular loan,
8 but with some of the -- many of the loans in general,
9 particularly those that were being criticized, that
10 other things needed to be done to the loans that were
11 being done, and yet I was being overruled by
12 Mr. McDougal, and that's one of the reasons why I
13 left in March, is because after nine months, it was
14 obvious that business was not going to be taken care
15 of in the manner it should have been taken care of,
16 which was going to require some hard decisions.

17 Q Our records also reflect that from the time
18 you wrote your letter in August of '82 through the
19 time you left the bank, there were no payments made
20 to principal.

21 A Right.

22 Q Would you have viewed that as a problem?

1 A Yes.

2 Q Can you elaborate on that?

3 A Well, the reason I would have viewed it as
4 a problem in light of the August 11, 1982 letter is
5 because if the loan was supposed to be paid out of
6 sale to the Whitewater property, and the Whitewater
7 property was selling, then there should have been
8 some reduction on the principal of that because the
9 bank was losing collateral as those sales were being
10 made. So the loan amount should have been reduced at
11 the same point in time.

12 And normally, when real estate loans are
13 made, there's always some reduction in principal, in
14 addition to interest reduction, and by September of
15 '82, that particular \$28,000 loan was already two
16 years old or it lacked three months being two years
17 old, and yet none of the principal had been reduced.

18 If you have a real estate loan that's
19 secured by real estate that you're planning on
20 selling pieces of property to pay the real estate
21 off -- to pay that loan off, and you haven't sold any
22 of that property in two years, then that also raises

1 a red flag.

2 Q I thought it was your testimony that you
3 were unaware of the Whitewater investment.

4 A This letter says "in my understanding, the
5 loan has been paid out of the proceeds of the
6 Whitewater Development Company." As I said, I was
7 not aware -- you asked me why the loan -- why I would
8 consider the loan's no reduction in principal
9 payments unsatisfactory. I'm not saying that I was
10 aware of the -- I said earlier, I'm not aware of any
11 of the Whitewater transactions, which I am not. I
12 was not aware that McDougal and Clinton were involved
13 other than this letter says the proceeds are supposed
14 to be paid out of the Whitewater Development.

15 Q And just for the record, that's
16 Mrs. Clinton's letter to you?

17 A Right.

18 MR. IVEY: I was going to say I think that
19 he asked you a hypothetical question. He posed facts
20 to you. I don't think that you added additional
21 facts to your testimony inconsistently with what you
22 had said before.

1 BY MR. BARTOLOMUCCI:

2 Q I agree with that. I was just trying to
3 clarify whether, in fact, what you knew about the
4 Whitewater Development Corporation.

5 A I don't know anything about the Whitewater
6 Development Corporation, but the loan itself was
7 secured by real estate. That we do know. And this
8 letter indicates that the loan was supposed to be
9 reduced by the sales of Whitewater property developed
10 by the sales made by the Whitewater Development
11 Company, and if after two years or if after 21 months
12 there had been no reduction in that loan proceeds,
13 then obviously, there were no sales or the sales
14 money was not coming to the loan, which, in either
15 case, raises as a red flag as a loan officer.

16 MR. BARTOLOMUCCI: We're going to pause for
17 one second while the court reporter changes the
18 tape.

19 (Pause.)

20 BY MR. BARTOLOMUCCI:

21 Q I just have a couple more questions for
22 you. Your testimony was when you wrote to Hillary

1 Rodham, you were unaware at the time that she was the
2 former governor's wife. Do you remember when you did
3 come to learn that? Was that at the time you
4 received the letter or when you spoke to Mr. McDougal
5 subsequent to the receipt of Mrs. Clinton's letter?

6 A I really don't remember when it was that I
7 was informed as to who she actually was.

8 Q You don't remember having a conversation
9 with Mr. McDougal about it or coming to learn of the
10 fact through a conversation with him?

11 A No, I don't remember.

12 Q Do you know Marlon Jackson?

13 A I've heard of his name. And I believe we
14 examined one of his banks when I was with the FDIC.
15 I recognize his name, but that's about all.

16 Q So you would be unaware of any conversation
17 Mr. Jackson had with Bill Clinton with respect to a
18 Whitewater-related loan?

19 A That would be correct, I would be unaware.

20 MR. BARTOLOMUCCI: That's all I have.

21 Glenn, do you have anything else?

22 MR. IVEY: Yes, let me ask a couple

1 follow-up questions.

2 EXAMINATION

3 BY MR. IVEY:

4 Q With respect to taking care of it, the
5 issue of taking care of the loan, I think you had
6 mentioned that you said that your preference would
7 have been for the bank to -- did you say get rid of
8 the loan?

9 A I suppose you could use that term if you
10 want to, but basically it would be for the loan to be
11 paid out.

12 Q And I guess your testimony about the
13 transfer of the loan was that you weren't clear about
14 it, but I know Mr. Bartolomucci told you that the
15 loan was transferred to Security Bank of Paragould, I
16 believe, in 1983.

17 MR. BARTOLOMUCCI: Or part of it anyway.

18 BY MR. IVEY:

19 Q Would that be sort of the type of thing you
20 were talking about, transferring it to another bank?

21 A That would be one option.

22 Q And with respect to the issue about the

1 absence of payment on the principal and the fact that
2 the payments you were receiving of \$285 was not
3 meeting the rate of interest accrual of \$373, you
4 received a letter back from Mrs. Clinton. I guess
5 the substance of the letter -- her understanding was
6 that the loan was being paid out of the proceeds from
7 sales by Whitewater Development Company. If there's
8 a need to increase the payment, you should talk to
9 the McDougals, and that's consistent with what you
10 did, you went to talk to the McDougals after
11 receiving that letter?

12 A Yes. There was some communication between
13 Mr. McDougal and myself.

14 Q And if my recollection is correct, your
15 testimony is you never spoke to Mrs. Clinton, or
16 Ms. Rodham, directly with respect to this loan?

17 A I do not recall speaking to her directly.

18 Q So would it be fair to say that -- strike
19 that.

20 MR. IVEY: I don't have anything further at
21 this time.

22

1 (Whereupon, at 12:14 p.m., the deposition
2 was concluded.)
3
4

5 THERESA L. POCKRUS
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

47

I, JULIE BAKER, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires

SEPTEMBER 30, 1997

**DEPOSITION OF LINDA D. CHANDLER
IN RE: S. RES. 120**

SATURDAY, APRIL 27, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of LINDA D. CHANDLER, called
for examination pursuant to notice of deposition, at 10:16 a.m. in
the Hart Senate Office Building, before CARMEN BUNCH, a Notary
Public within and for the District of Columbia, when were present:

MICHAEL P. O'CALLAGHAN, Esq.

Majority Associate Special Counsel

MITCHELL FEUER, Esq.

Minority Counsel

U.S. Senate

Committee on Banking, Housing, and Urban Affairs

534 Dirksen Building

Washington, DC 20510

On behalf of the Committee.

RICHARD TURBEVILLE, Esq.

Turbeville & Fowler

Little Rock, Arkansas

On behalf of the Deponent.

CONTENTS

WITNESS	EXAMINATION
Linda D. Chandler	
by Mr. O'Callaghan	6
by Mr. Feuer	66
by Mr. O'Callaghan	88

1 PROCEEDINGS

2 MR. O'CALLAGHAN: Good morning,
3 Ms. Chandler. My name is Michael O'Callaghan. I'm
4 associate special counsel with the Special
5 Committee. I'm an attorney for the Majority. And
6 with me also is Mitchell Feuer, also an attorney,
7 counsel to the Banking Committee.

8 MR. FEUER: Good morning, Ms. Chandler.

9 THE WITNESS: Good morning.

10 MR. O'CALLAGHAN: This is the telephone
11 deposition conducted pursuant to Senate Resolution
12 120. The resolution establishes a Special Committee
13 administered by the Banking Committee to conduct an
14 investigation involving Whitewater Development
15 Corporation, Madison Guaranty Savings & Loan
16 Association, Capital Management Services, Inc., the
17 Arkansas Development Finance Authority and other
18 related matters.

19 This deposition is in advance of public
20 hearings which will occur next week, and there's a
21 possibility that you may be asked to testify at those
22 hearings.

1 We're going to ask you a series of
2 questions today and ask you to testify under oath.
3 Do you consent to being sworn in over the telephone?

4 THE WITNESS: Do I what?

5 MR. TURBEVILLE: Consent.

6 THE WITNESS: Yes.

7 MR. O'CALLAGHAN: If you don't understand a
8 question, let either me or Mr. Feuer know and we'll
9 be happy to rephrase them. And also, due to the fact
10 we're doing this over the telephone, if you don't
11 hear a question, please ask us to restate it.

12 THE WITNESS: Okay.

13 MR. O'CALLAGHAN: Also if you need a break
14 at any time let us know and we'll be happy to
15 accommodate you.

16 THE WITNESS: Thank you.

17 MR. O'CALLAGHAN: We have a stenographer
18 here today who is preparing a record of questions and
19 answers. The deposition will be treated as committee
20 confidential until the commencement of the hearings.
21 Prior to the hearings, if you are called to testify,
22 you will be given an opportunity to review your

1 deposition before the hearings, and also, if you wish
2 to make any note of corrections for transcription,
3 you may do that on an errata sheet and request a copy
4 of the transcript, we'll be happy to provide it to
5 you.

6 You may be represented by counsel. Are you
7 represented by counsel today?

8 THE WITNESS: Yes, I am.

9 MR. O'CALLAGHAN: Counsel, could you please
10 state your name and the name of your firm?

11 MR. TURBEVILLE: Richard Turbeville,
12 T-u-r-b-e-v-i-l-l-e. My law firm is Turbeville &
13 Fowler, F-o-w-l-e-r.

14 MR. O'CALLAGHAN: Objections to the form of
15 questions will be noted for the record. Counsel may
16 object on grounds of privilege or relevance, and the
17 Committee Chairman may rule on objections where the
18 witness refuses to answer a question.

19 Could you please swear the witness.
20 Whereupon,

21 LINDA D. CHANDLER

22 was called as a witness and, having first been duly

1 sworn, was examined and testified as follows:

2 EXAMINATION

3 BY MR. O'CALLAGHAN:

4 Q Could you please state and spell your full
5 name for the record.

6 A Linda D. Chandler, C-h-a-n-d-l-e-r.

7 Q Middle initial B or D?

8 A D, like in dog.

9 Q Have you spoken with anyone other than your
10 counsel prior to the deposition with regard to the
11 deposition?

12 A Yes.

13 Q Who have you spoken with?

14 A Not in detail. I told two members of my
15 family that I was giving this deposition this
16 morning. And I received a phone call from Mort
17 Hardwicke, who used to be on the Arkansas Housing and
18 Development Board when I was there, who just told me
19 that he was subpoenaed to be, I think, there next
20 week, and wanted to know if I had.

21 And I also received a phone call from
22 George Wright, who basically said the same thing, but

1 we didn't discuss anything except are you going to be
2 there or have you been subpoenaed. And I said at
3 that point in time I didn't know.

4 Q Did you have any substantive conversations
5 about the work you did at AHDA or ADFA?

6 A None, no.

7 Q Have you spoken with anyone else?

8 A I'm sorry, I didn't hear that.

9 Q Have you spoken with anyone else about the
10 deposition?

11 A Not about the deposition, but I did tell my
12 boss, George Surgeon, when I thought I was going to
13 be giving the deposition on Wednesday of last week.
14 Then when we canceled it and changed it to today, I
15 told him that's what we had done.

16 Q Anyone else?

17 A No.

18
19
20 Q Did you review any documents or do anything
21 to prepare for the deposition today?

22 A No, I have no documents, none.

1 Q Are you currently employed?

2 A Yes.

3 Q Where are you employed?

4 A Southern Development Bank Corporation in
5 Arkadelphia, Arkansas.

6 Q What is your position there?

7 A I'm vice president of Southern Development
8 Bank and president of Opportunity Lands Corporation,
9 which is a subsidiary real estate development
10 company.

11 Q How long have you been in that position?

12 A For eight years.

13 Q What did you do previous to that?

14 A I owned my own mortgage company.

15 Q What years did you own the mortgage
16 company?

17 A From 1984 to 1988.

18 Q And what was the name of that company?

19 A Central Arkansas Mortgage.

20 Q And prior to that, were you employed?

21 A Yes.

22 Q And where were you employed?

1 A I was manager of Lomas & Nettleton Mortgage
2 Company from '83 to '84.

3 Q Could you restate the name of the company
4 again?

5 A Lomas & Nettleton Mortgage Company.

6 Q How about prior to that?

7 A I worked for Arkansas Development Housing
8 Agency from 1979, I believe like March of '79, to
9 maybe June of '83. And I'm not really sure about the
10 dates. '79 to '83 for sure but I'm not exactly sure
11 when I left, or the month I left.

12 Q And what was your position there, or
13 positions?

14 A When I started in 1979, I was loan
15 underwriter, I reviewed the loans when they were
16 submitted to us from the banks for review for
17 purchase. I was promoted in 1980 to single family
18 housing officer, which was more or less the
19 administrator of that particular area, loan review.

20 In 1981, I was promoted to deputy director
21 of housing, and in 1983, I was acting director for a
22 few months and then executive director until I left

10

1 in June.

2 Q You said that was for a few months?

3 A Actually from January until I left, and I
4 believe it was either the end of May or sometime in
5 June of '83.

6 Q During the time that you were -- I'm sorry,
7 when did you become acting director?

8 A When did I become the executive director?

9 Q Or acting director.

10 A Acting director, I believe it was either
11 December of '82 or January of '83. It was right
12 after the November election where Bill Clinton became
13 the governor again, and Bob Hammerschmidt, who had
14 been appointed by the Republican governor from '81 to
15 '82, left right after the election where Bill
16 Clinton was reelected and I became acting director.

17 Q Was that a normal course of operation when
18 a new administration came in?

19 A Yes, it is. It only happened once while I
20 was there, but yeah, normally you have to have
21 somebody in charge.

22 Q But usually the executive director leaves

1 when a new administration comes in if it's a
2 different party or whatever?

3 A That was my only experience with that but I
4 would assume yes.

5 Q How did you become acting director?

6 A The board of directors asked me to assume
7 that role.

8 Q And how about being named executive
9 director, how did that come about?

10 A I'm sorry, I didn't hear the whole
11 question.

12 Q How did you come to be named executive
13 director?

14 A The board of directors accepted resumes
15 from applicants for that position, and I submitted
16 mine to the board.

17 Q Just so we're clear, that's for the
18 executive director position?

19 A Yes, it was. I was interviewed by the
20 board of directors, a committee of the board of
21 directors, the same as the other applicants were.

22 Q And why did you leave the agency?

12

1 A I was offered a position with Lomas &
2 Nettleton Mortgage Company, which at the time was the
3 largest mortgage company in the country, and the
4 salary and benefits were better than with the state
5 housing agency, and I felt it was a better career
6 move.

7 Q They lured you away from state government,
8 huh?

9 A That's right.

10 Q During your time at AHDA, were you familiar
11 with the process, the bidding process that was used
12 for selecting underwriters for the different bond
13 offerings the agency did?

14 A Yes.

15 Q And did you have any role in that while you
16 were there, in that process?

17 A The only role I had was presenting to the
18 board of directors the bids that the agency had
19 received.

20 Q And did you do that in your role as acting
21 and executive director?

22 A Yes, I did.

1 Q Before you became acting director, did you
2 have any role in the process for selecting
3 underwriters?

4 A I was probably present at meetings where
5 the bids were reviewed.

6 Q And who reviewed the bids?

7 A Our finance department.

8 Q How many different people were employed to
9 make a review of the bids?

10 A Oh, it probably was just two, probably the
11 deputy director of finance and her assistant.

12 Q What was the name of the deputy director of
13 finance while you were there?

14 A Vivian Pugh, P-u-g-h.

15 Q And you said you believe you attended some
16 of the meetings where the bids were reviewed?

17 A Yeah, I'm sure that I saw the bids prior to
18 the board meeting, yes, and I'm sure we probably had
19 a committee -- we didn't make recommendations. We
20 presented the bids that had come in.

21 Q You did not make recommendations?

22 A No, we more or less calculated the cost,

1 you know, the basis points that the different
2 underwriters proposed to do the bond issue for, and
3 presented that information to the board.

4 Q So you basically presented the board
5 members with a rundown of the numbers of the
6 different proposals?

7 A That's right.

8 Q Now, with regard to the proposals you
9 received, did you receive proposals from both lead
10 underwriters and co-managing underwriters?

11 A Yes, we did.

12 Q How did they differ generally, if you can
13 give me an idea, or did they?

14 A Well, they generally knew that they were
15 not submitting bids for the lead underwriter if they
16 were local underwriters.

17 Q Yes.

18 A But as far as the bids -- the bids were the
19 same. As far as the requests for bids, they were the
20 same, as I recall.

21 Q So the letters that went out were the same?

22 A Yes, to my knowledge. I mean, as you know,

1 it's been 13, 15 years ago.

2 Q Yes.

3 A But I think that's correct. I think we
4 submitted the same proposal out to all the
5 underwriters. But you do need to know that I didn't
6 actually perform that myself as executive director or
7 acting director. The finance division would send out
8 the proposal requests.

9 Q Okay. With regard to the reviews that were
10 conducted of the co-managing underwriter proposals,
11 were those also rundowns of numbers or do you --

12 A Yes.

13 Q Do you recall what criteria were used for
14 selecting the co-managing underwriting teams?

15 A I really don't. I do not. I think there
16 were like three different categories where they would
17 bid certain basis points, and one in particular would
18 include, you know, the sale of bonds; each of the
19 local underwriters would receive certain amounts of
20 tax and housing bonds to sell, so one category was
21 that, but I really don't recall what the other
22 categories were.

1 Q But you recall there were three different
2 categories?

3 A I think there were. There were more than
4 one. It wasn't just a bid that said we'll, you know,
5 do this bond issue for 50 basis points, okay. It was
6 split down in some categories, but I really don't
7 know how many, I don't remember.

8 Q While you were there, was there ever a
9 change in the process for the -- with regard to the
10 process with the request for bids that were sent out
11 for the agency?

12 A Not that I'm aware of.

13 Q How were the underwriters chosen to
14 participate in the bond offerings done by the agency?

15 A How were they chosen?

16 Q Yes, ma'am.

17 A Well, as I said, the staff would present
18 the bids to the board of directors, and the board of
19 directors would vote on those bids. As I recall, in
20 some cases, I know it was the lowest bid. I don't
21 know if that's the situation in all of the bids. I'm
22 sure it had something to do with experience too at

1 some point.

2 Q The experience of the firms?

3 A Well, the experience that the firms had,
4 maybe, in this type of financing.

5 Q In performing underwriting?

6 A Right. Or ability to sell bonds locally or
7 something like that. You know, one of the key
8 criteria is you want to be able to sell all the bonds
9 that you issue.

10 Q Was there a premium put on selling bonds
11 within the state of Arkansas?

12 A Not that I recall. I don't know.

13 Q The reason I ask, you just said -- you
14 referenced an ability to sell bonds locally.

15 A Well, I think that that was probably
16 discussed, because the underwriters -- I mean one of
17 the situations is if we sell a \$100 million bond
18 issue, we wanted to be able to sell all of those
19 bonds after we sell the tax exempt housing stuff. So
20 I'm sure one of the things that was discussed is
21 their ability to sell these bonds.

22 Q Did the staff or anyone on the board ever

1 conduct due diligence type of reviews of the
2 underwriting firms that were being considered?

3 A I'm sure the finance department did. I
4 would not have been involved in that.

5 Q And again while you were there, Vivian Pugh
6 was the head of that?

7 A Director of finance.

8 Q Are you familiar with what type of review
9 they conducted?

10 A No.

11 Q Do you know whether they looked at the net
12 capital levels of the firms that were participating
13 in the bidding processes?

14 A You know, I would assume that they would
15 but I don't know that for a fact since I did not
16 handle the review.

17 Q With regard to the rundown of numbers that
18 you presented to the board of directors with regard
19 to the different bids, did those include accounting
20 for the net capital levels of the different firms
21 that were submitting bids?

22 A Not that I recall.

1 Q What type of information was contained in
2 the information you provided to the board?

3 A The key information was what it was going
4 to cost the Arkansas Housing Development Agency to
5 issue this bond issue, so that the main thing that I
6 recall is that would be the basis points that they
7 were going to charge to administer this program and
8 to sell the bonds.

9 We wanted to make available as much of
10 the -- if it was a \$100 million tax exempt housing
11 bond issue, we wanted to make as much of that money
12 available to low-income homeowners as possible, so
13 the cost of making this bond issue available was a
14 key. That's what we looked for.

15 Q Well, you said generally underwriters were
16 chosen on the basis of their submitting the lowest
17 bid; is that right?

18 A I know that's one of the ways that we chose
19 the underwriters. I know that was very important.

20 Q Do you have a recollection of any instances
21 when a firm was chosen that hadn't put a lowest bid
22 in that drew your attention?

20

1 A No.

2 Q During the time that you were acting as
3 executive director, do you recall how many issues
4 were done by the agency?

5 A During that six-month period of time?

6 Q Yes, ma'am.

7 A Is that what you're asking?

8 Q Yes.

9 A I think just one. We -- let me go back.
10 You would have to jog my memory with documents, and I
11 know they are available, but I don't have them. I
12 know we did a single family housing bond issue.

13 We may have also sold a multifamily housing
14 bond issue that same year before I left. I really
15 can't recall whether we actually sold it or whether
16 it was -- we were working on it at the time, but I
17 think in 1983 we did have a multifamily and a single
18 family housing bond issue.

19 Q And were requests for proposals sent out
20 for those issues?

21 A Yes. And I could be wrong about my dates,
22 because as I said, I was deputy director in '82 also,

1 so it may have been -- the multifamily may have been
2 in '82 rather than '83.

3 Q I've got a copy of some board minutes which
4 I will read to you, and that might help you
5 remember. I've got before me copies of minutes from
6 the Arkansas Housing Development Agency executive
7 board meeting dated March 16, 1983. And in the
8 second paragraph of the first page it lists the
9 people who were present, and it says executive board
10 members present were Charles Stout, Mort Hardwicke,
11 Mahlon Martin and George Wright. Agency staff
12 present were Linda Trent, acting director; Vivian
13 Pugh, deputy director; Bill Wilson, fiscal officer;
14 Bernard Henry, multifamily housing officer; Susan
15 Young, single family housing officer; Gary Arrington,
16 management representative; Randal Jones, planning
17 specialist; and Charlotte Sisson, purchasing agent.

18 Then going to the third page of the minutes
19 for that day, two-thirds of the way down the page,
20 second paragraph up from the bottom reads "Ms. Trent
21 informed the members that multifamily 19 projects are
22 coming along on schedule as reflected in the board

1 booklet. She then asked Mr. Bernard Henry for
2 comments. Mr. Henry stated two projects have been
3 completed, Greenbrier and Leverett Gardens II.
4 Mr. Stout stated HDA has received eight proposals on
5 the proposed multifamily bond issue, that sometime
6 within the next few days a multifamily subcommittee
7 meeting will be scheduled to review these proposals
8 and recommend to the full board their decisions on
9 underwriters for this program."

10 Did you go by the name of Linda Trent in
11 March of 1983?

12 A Yes. I was Linda Trent until '84 which is
13 the year after I left. Every document that you have
14 will be Linda Trent.

15 Q I just want to make sure it's clear for the
16 record. I just read you a quick -- small portion
17 from the March 16, 1983 minutes where there's a
18 reference to HDA receiving eight proposals on a
19 proposed multifamily bond issue.

20 A Right.

21 Q Do you recall that happening?

22 A Yes, I do, but I will tell you, I don't

1 recall the meeting where we chose the underwriter or
2 any of that stuff, but the early part of the reading
3 that you gave was referring to projects that we had
4 construction lending for through local banks, and the
5 bond issue was to provide permanent financing for
6 these multifamily housing apartments.

7 So yes, I recall that but I don't recall --
8 I mean this is 13 years ago, but I don't recall the
9 underwriters right now. It may come to me in a few
10 minutes.

11 Q Okay. I'm going to move on to another set
12 of board minutes. This is actually a subcommittee
13 meeting. The Arkansas Housing Development Agency,
14 subcommittee meeting, April 1, 1983. And listed on
15 the front page there as part of the AHDA staff
16 present were Linda D. Trent, acting executive
17 director, and Bill Wilson, fiscal officer.

18 A Yes.

19 Q And then on the second page, on the third
20 paragraph it reads "the members discussed at length
21 the qualities they were looking for in the
22 underwriters who were selected for the 1983 proposed

1 multifamily program. Ms. Trent stated that all the
2 underwriters requested a chance to give oral
3 presentations before the board makes a decision.
4 Mr. Williams suggested that the underwriters should
5 be willing to give this project their full attention
6 and do a good job for us. It was finally determined
7 it would be in the interest of AHDA to invite each of
8 the proposed underwriters to deliver a 15- to
9 20-minute presentation before the subcommittee,
10 starting at 9:30 a.m., Tuesday, April 12. And the
11 subcommittee will make recommendation to the full
12 board that same afternoon at the 3:00 meeting."

13 Do you recall that occurring?

14 A Yes, I do.

15 Q And was that unusual for a suggestion to be
16 made to have competing underwriters to come in and
17 make oral presentations to the subcommittee?

18 A No, that was not unusual at all. We had
19 underwriters make oral presentations even to the full
20 board in certain occasions, so that's not unusual at
21 all. Especially if the issue was complicated in any
22 way, and the board members obviously, they're not

1 versed in this type of work, then they would request
2 that a representative from the underwriting firm come
3 in and kind of walk them through the proposal so they
4 would be able to compare apples to apples rather than
5 not really knowing.

6 So that was not unusual at all.

7 Q I'm going to move on now in time to the --
8 to an April 12 executive board meeting from 1983.
9 And again, listed in the front page for AHDA staff
10 being present, your name is listed as Linda D. Trent,
11 acting executive director. I'll also note your
12 signature also appears at the end of the minutes on
13 the last page.

14 And on the fourth page of the minutes for
15 this meeting, the second to last paragraph reads
16 "Chairman Stout stated that the multifamily
17 subcommittee heard oral presentations from the
18 underwriters earlier in the day and were prepared to
19 make recommendations to the full board this
20 afternoon. He asked Vice Chairman Hardwicke for the
21 subcommittee's recommendation. Vice Chairman
22 Hardwicke informed the board that all the proposals

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1 were good and after listening to eight proposals and
2 considering each carefully, the subcommittee would
3 like to recommend to the board that Merrill Lynch be
4 the lead underwriter with Stephens, Inc. and T.J.
5 Raney & Sons, Inc. as locals.

6 "The board also recommended that the Rose
7 Law Firm be selected as bond counsel. After motions
8 were made and seconded the board unanimously approved
9 the underwriters and bond counsel recommended by the
10 subcommittee."

11 Do you recall being at the meeting where
12 Merrill Lynch, Stephens, and T.J. Raney were chosen
13 to do that multifamily issuance?

14 A Yes, I do.

15 Q Those are three, I guess, of the eight
16 firms that competed for that -- or put in proposals
17 and gave oral presentations for that offering. Do
18 you recall any of the other five firms that competed
19 for that business?

20 A Yeah, I'm pretty sure that E.F. Hutton
21 would have presented a proposal. I think probably
22 George K. Baum, which is Dabbs Sullivan, Inc. here in

1 town, I think Collins, Locke & Lasater also presented
2 a proposal, local with T.J. Raney and Stephens, Inc.
3 And I believe there was at least one other -- well,
4 the other local would have been Dabbs Sullivan.

5 Q Didn't you already mention them on the
6 George K. Baum?

7 A Yeah, I mentioned them as lead. I think
8 they were actually as a local. And it seems like in
9 this particular issue Prudential may have presented a
10 proposal also. Again, my memory is going to be not
11 really good. But the previous issue, single family
12 and multifamily from '79 to '83, it was about the
13 same ones that would submit proposals. For instance,
14 E.F. Hutton and Merrill Lynch had been involved
15 before in bond issues with AHDA, as well as Stephens,
16 Inc. and T.J. Raney.

17 Q Had Collins, Locke & Lasater been involved
18 before?

19 A No.

20 Q Was this the first issue that they competed
21 to perform services for?

22 A I think it was.

1 Q Did you get a chance to look at their
2 proposal for the issuance?

3 A I'm sure that I did, but I don't recall
4 it. I mean I would have to see a document before I
5 would recall anything. You know, I don't have that
6 good of memory about details even that happened six
7 months ago. So I'm sure that I saw all the proposals
8 but I sure couldn't tell you anything about any of
9 them.

10 Q Do you recall whether any of the proposals
11 you saw were -- they were better than some of the
12 others or worse than the others?

13 A Michael, as I said, I don't recall that
14 many years ago about one particular bond issue, you
15 know. I know the bond issues we did, I believe all
16 the underwriters were good, but I really could not
17 recall details of any of the proposals on any issue,
18 not even this one.

19 As you asked me earlier, I'm cold turkey
20 here. I haven't seen any of this stuff for 13 years
21 since I left there, so to ask me specific questions
22 without something in front of me to look at, I

1 wouldn't have a clue.

2 Q Where I can, I'm going to try to help you,
3 but unfortunately, we don't have a lot of the
4 documentation also.

5 A Okay. I understand. But I wanted you to
6 know that I didn't take anything with me when I left
7 the agency, so I don't have copies of minutes or bids
8 or any of that stuff. I haven't looked at any of
9 this stuff since I left.

10 Q I'm going to refer you now to an April 19
11 special executive board meeting. And again, in the
12 first page where it lists the staff present, it says
13 Linda D. Trent, acting executive director, and Midge
14 Pugh, deputy director.

15 Specifically on the third page of the
16 minutes for this meeting, it reads "upon
17 Mr. Hardwicke's request for further business,
18 Mr. Wright made a motion that Collins, Locke &
19 Lasater be added to the underwriting team for the
20 agency's proposed 1983 multifamily issue in order to
21 spread it around and include more local Arkansas
22 underwriters on this issue. Mr. Edwards seconded the

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1 motion and the board approved the same."

2 Do you recall that happening?

3 A Yes, I do.

4 Q Do you recall what the circumstances were
5 surrounding that motion?

6 A I was not involved in any discussions
7 concerning putting Collins, Locke & Lasater on the
8 account between April 12 and April 18. The first I
9 knew of it as acting director was at this board
10 meeting, so it came as a surprise to me, so I can't
11 give you any information on what prompted this
12 happening.

13 Q And I --

14 A I didn't know anything about it until the
15 meeting was called and this motion was made.

16 Q And you mentioned that you were surprised.
17 Why were you surprised?

18 A To have a special board meeting and add
19 another underwriter to an issue when that decision
20 had been made on the April 12 meeting.

21 Q So that was -- would you say that was an
22 unusual occurrence?

1 A It had not occurred while I was in that
2 position.

3 Q Did you have concerns about the
4 appropriateness of the motion and the passage of it?

5 A I had questions as to what prompted it, but
6 I don't have any information on that.

7 Q Did you make any inquiries to anyone?

8 A I'm sure I did.

9 Q Do you recall who you directed those
10 inquiries to?

11 A Michael, I really don't. I mean I know
12 that it was a question in my mind, but it was board
13 business, I was a staff person, I was not included in
14 the meetings prior to this decision. I don't recall
15 that I ever got any information on it.

16 Q Are you aware whether there was a meeting
17 of the board between April 12 and April 19 with
18 regard to this issue?

19 A I don't think I recall any. I don't recall
20 any now, so I'm going to answer no, I don't think I
21 knew of any taking place. I know I wasn't included
22 in any.

1 Q So if there was a discussion of including
2 Collins, Locke & Lasater as an underwriter between
3 April 12 and April 19, it would have been during an
4 unofficial meeting or discussion?

5 MR. FEUER: I think that there's --

6 MR. O'CALLAGHAN: That's a question.

7 MR. FEUER: Yes, but I think there's an
8 assumption in the question that all the members of
9 the board got together and discussed something at
10 something other than a regular board meeting. It's
11 possible -- it's equally possible that one member
12 discussed it with only other member. It's also
13 possible that none of the members of the board
14 discussed it.

15 THE WITNESS: That's true.

16 BY MR. O'CALLAGHAN:

17 Q And you said you didn't have knowledge of
18 any meeting in between?

19 A I don't recall. Now, as I said, we kept 15
20 copies of everything we ever did at Arkansas Housing,
21 so I'm sure if you looked close enough, you could
22 determine whether there was meetings between April 12

1 and April 19, but 13 years later, I don't recall
2 knowing of any.

3 Q Did the agency keep copies of the bid
4 proposals that came in?

5 A Yes, I think we did. I know we did for a
6 period of time, anyway. I would assume we probably
7 still have copies of those up there somewhere.

8 Q Was there any discussion during the April
9 19 meeting about the inclusion of Collins, Locke &
10 Lasater?

11 A At the April 18 meeting?

12 Q 19. That's the minutes I just read to you
13 where George Wright made a motion that they be added
14 to the underwriting team for the 1983 multifamily
15 issue.

16 A And you're asking me if there was any
17 discussion at that meeting concerning adding them?

18 Q Other than the motion made by Mr. Wright,
19 was there any discussion about their inclusion?

20 A I don't remember, Michael. I mean I don't
21 remember.

22 Q And --

1 A I remember that incident happening, but I
2 don't remember whether there was discussion
3 afterwards or not.

4 Q Was this an occurrence that you would have
5 characterized as something being highly irregular?

6 A I don't know that being an acting director
7 and executive director for six months gives me the --
8 you know, I don't know if that would be considered
9 irregular or not. I mean it was the only time that
10 it happened while I was in that capacity.

11 Q Well --

12 A I don't have a lot -- I couldn't go back
13 and say, you know, we had 15 issues where this hadn't
14 happened on and I was in this capacity, so I don't
15 know.

16 Q During the time that you were single family
17 housing officer and deputy director of housing, did
18 you attend board meetings?

19 A Yes.

20 Q Did that happen any time during those board
21 meetings that you recall, where an underwriter was
22 added after the team had been already chosen?

1 A Not that I recall, Michael. It could have
2 happened, though, but I don't recall it happening at
3 this point in time.

4 Q Do you recall whether there were any
5 complaints raised in the financial community with
6 regard to the inclusion of Collins, Locke & Lasater
7 on this issue?

8 A What do you mean by "financial community"?

9 Q Well, specifically did any of the
10 underwriters that had originally been chosen during
11 the normal process raise any concerns?

12 A Yes.

13 Q Do you recall who raised the concerns and
14 what they were?

15 A Yes.

16 Q And who was that and what were their
17 concerns?

18 A It was Charlie Crow from Stephens.

19 Q And did you have any discussions with
20 Mr. Crow?

21 A Yes, I did.

22 Q Did he approach you first or --

1 A He approached me.

2 Q Was it a face-to-face conversation or was
3 it via telephone?

4 A Face to face.

5 Q Where did that occur?

6 A In my office at Arkansas Housing
7 Development Agency.

8 Q And how soon after the inclusion of
9 Collins, Locke & Lasater did it approximately occur?
10 I know it's a long time ago.

11 A You know, Michael, I don't know. I'm just
12 going to tell you that I assume it was probably
13 within the next week or so, but I don't really
14 remember the date of this meeting. It was after
15 Collins, Locke & Lasater was put on the account, but
16 I honestly don't remember how long after April 19 it
17 was when he came to my office.

18 Q Before I ask you about that conversation, I
19 just want to quickly go back to the April 19
20 meeting.

21 A Yes.

22 Q Minutes reflect that there was a

1 representative there, Ms. Johnnie Holcomb of
2 Stephens, Inc.?

3 A Yes.

4 Q Do you know whether Ms. Holcomb raised any
5 concerns at the meeting with regard to the inclusion
6 of Collins, Locke & Lasater?

7 A I don't recall, Michael, whether she did or
8 not. I do know that Johnnie was there.

9 Q Getting back to the visit by Mr. Crow from
10 Stephens to your office at AHDA, if you could
11 describe to me what the subject of the conversation
12 was.

13 A He represented to me that Stephens, Inc.
14 did not feel that Collins, Locke & Lasater should not
15 be on the account with them. They didn't want to do
16 business with them, they didn't want to be a partner
17 with them on an issue. And he suggested that I talk
18 to the board and convince them to take Collins, Locke
19 & Lasater off of the account or Stephens, Inc. would
20 resign.

21 Q Did he state his reasons for not wanting to
22 do business with them or be included with them?

1 A I don't recall his exact words, okay, but I
2 know that the indication to me was he didn't feel
3 that they were on the same level of underwriting
4 firms, that they were a little unscrupulous and
5 they -- Stephens felt they didn't want to be a
6 partner with them on any issue.

7 Q I know this was a long time ago but did he
8 give you any indication of reasons he thought they
9 were unscrupulous?

10 A I don't really recall, I really don't. I
11 didn't know one thing about Collins, Locke & Lasater
12 at that point in time. I didn't know any of them,
13 and I didn't -- I don't even know if I knew Collins,
14 Locke & Lasater existed. I'm sure I probably did
15 because Little Rock is a small city, but the
16 information he was giving me didn't stick really
17 because I didn't know them.

18 Q Do you recall whether he pointed out that
19 they hadn't participated in any bond offerings with
20 the agency previously?

21 A I don't recall that, Michael. He may have
22 but I don't recall.

1 Q So what did you do after Mr. Crow came to
2 your office and voiced these concerns about Collins,
3 Locke & Lasater not being on the same level and being
4 unscrupulous?

5 A I called Charlie Stout and told him about
6 the conversation.

7 Q And who was Charlie Stout?

8 A He was the chairman of Arkansas Housing
9 Development Agency at the time, chairman of the
10 board.

11 Q What did Mr. Stout say?

12 A He said he would handle it.

13 Q And did you relate to him the concerns that
14 Mr. Crow had expressed to you?

15 A I did.

16 Q What was his reaction?

17 A His reaction was that he would take care of
18 it. He didn't give me any information other than
19 that. I took it that they didn't want me involved in
20 it, which was fine, I didn't want to be involved in
21 it, and that it would be handled at the board level.
22 I was not involved at any time after that either.

1 Q Was this pretty unusual for another firm to
2 come in and refuse to participate with another firm
3 on an underwriting?

4 A It never happened while I was there.

5 Q Have you heard it happen since?

6 A Not that I'm aware of, but I left within
7 the next 60 days, I think, from Arkansas Housing, so
8 I don't know if it's happened since or not.

9 Q Do you know if it happened any time before
10 that?

11 A No, not that I recall. But I do have to
12 keep in mind that I was acting executive director for
13 only six months, so I may not have been included in
14 anything before.

15 Q Other than your attendance at board
16 meetings; correct?

17 A That's correct.

18 Q After you told Mr. Stout about Mr. Crow's
19 concerns and he told you he would take care of it,
20 what did he do after that?

21 A I have no idea. The next thing I know --
22 and I don't even know, Michael, if this happened

1 while I was still there or not. I do know that
2 Stephens resigned from the account. I received a
3 letter that was -- I don't remember what was in the
4 letter, but I know that it was very short. I don't
5 think it was explicit in any way. It just resigned
6 Stephens, Inc. from that bond issue.

7 Q So do you know if Mr. -- do you know if the
8 full board was ever approached with Mr. Crow's
9 concerns about Collins, Locke & Lasater?

10 A I don't know.

11 Q During your conversation with Mr. Crow, did
12 he express his concerns about the inclusion of
13 Collins, Locke & Lasater after the procedures for
14 proposals and presentations had been made and a group
15 had been chosen?

16 A I'm sure he did.

17 Q Do you remember what you said to him in
18 response to that?

19 A No. I know I would have told the truth. I
20 know I would have told him that I was not aware of it
21 if that happened, because I wasn't.

22 Q Did he -- do you recall if he was

1 particularly upset about that aspect of the
2 situation?

3 A Do I recall if Charlie was upset about it?

4 Q Yes, ma'am.

5 A As I recall, Michael, he was more upset
6 that he didn't want to do business with Collins,
7 Locke & Lasater. That's what I recall. Now, again,
8 it's been a long time ago, but I recall that he
9 seemed to be more upset that he didn't want to work
10 with them than anything else.

11 Q To your knowledge, did any of the other
12 firms express any concern about the last minute
13 inclusion of Collins, Locke & Lasater?

14 A Not to me.

15 Q Do you know if they made them to anyone
16 else?

17 A I don't know.

18 Q During the time that you were with the
19 agency, did you have any contact with anyone from
20 Collins, Locke & Lasater?

21 A Yes.

22 Q And who did you have contact with?

1 A Michael Drake was the contact person for
2 Collins, Locke & Lasater. I think he started coming
3 to the board meetings maybe a few months before this
4 proposal, the bid for the proposal, and he was the
5 contact person after they were put on the account.

6 And I'm not sure of my memory about this,
7 so this may be something I have to correct later.
8 Patsy Thomasson also came to some of the later board
9 meetings with Michael Drake, but I don't know if she
10 worked for Collins, Locke & Lasater or not. I don't
11 know if she was representing them or if she was just
12 coming to the open board meeting, because all of our
13 board meetings were open to the public. So I don't
14 know in what capacity she came, but it may have been
15 that she was working for Collins, Locke & Lasater at
16 the time. But you'd have to check that out. I don't
17 know that for sure, but Michael Drake was the contact
18 person for Collins, Locke & Lasater.

19 Q Did you have any discussions with him with
20 regard to the multifamily issue that we discussed?

21 A You mean as far as putting them on the
22 account or any of that?

1 Q Yes, ma'am.

2 A No. It was purely business. Whatever was
3 related to the issue that I was working on is the
4 only thing I ever discussed with Michael Drake.

5 Q How about with Patsy Thomasson?

6 A Same. I don't even recall having a
7 conversation with Patsy Thomasson except maybe other
8 than before or during the board meeting.

9 Q Did you ever have any discussions with
10 Mr. Drake about the structure of their underwriting
11 department?

12 A No, I didn't. I want to explain something.

13 Q Sure.

14 A That we didn't really work very much with
15 the local underwriters on the issues. We worked with
16 the lead underwriter, okay. So I would see the
17 representatives from like Stephens, Inc. and T.J.
18 Raney and Collins, Locke & Lasater at board meetings,
19 because they all attended, but as far as working on
20 the issues themselves, it was not often that I would
21 work with one of the local underwriters. I would
22 either work with our bond counsel, which was local,

1 or our lead underwriters out of New York, which in
2 this case was Merrill Lynch.

3 Q Did you know anyone else who was associated
4 with Collins, Locke & Lasater?

5 A No.

6 Q Did you know a Dan Lasater?

7 A No. I've never met him.

8 Q During the time of your acting as executive
9 director, did you have any interaction with anyone in
10 the governor's office?

11 A Yes.

12 Q Who did you have interaction with in the
13 governor's office?

14 A Not a lot, but Bob Nash.

15 Q What was his role at this time?

16 A I think he was adviser, economic
17 development adviser for Bill Clinton. And my
18 conversations with him were something like if someone
19 called the governor's office asking questions about
20 the low income housing bond issue, which was a
21 statewide issue, he would refer them to me.

22 So there were occasions that he might call

1 me and say such-and-such bank would like to be
2 involved in the next bond issue, will you make sure
3 that they get -- that they are aware of the next
4 request for funds.

5 And if they had not done business with the
6 Arkansas Housing Development Agency before, we would
7 put them on the list so that the next time we had an
8 issue, you know, we would send them a proposal.

9 Q And when you were referring to banks, is
10 that investment banks or regular banks?

11 A No, no, that's just regular banks. We made
12 available -- before we ever did a bond issue, we
13 would submit a letter to all the banks in Arkansas
14 asking if they wanted to participate in this
15 program. We did not make any direct loans when I was
16 at Arkansas Housing. Every loan we made was made
17 through banks, and then we purchased the closed loan
18 after the bank had processed and closed the loan
19 according to the guidelines for that particular bond
20 program.

21 Q And did that include savings and loans as
22 well?

1 A Yes, it did.

2 Q Did Mr. Nash ever contact you with regard
3 to Madison Guaranty Savings & Loan?

4 A No, he didn't.

5 Q Did you ever have any conversations with
6 Mr. Nash about Collins, Locke & Lasater?

7 A I don't recall that I ever did.

8 Q Do you recall whether you had any
9 conversations with him about any specific
10 underwriters?

11 A No, I didn't. I'm sure that I didn't.
12 That was not the relationship that I had with Bob
13 Nash. It was more of a referral basis. If there
14 were questions that came to the governor's office
15 that related to the state finance agency, then he
16 would either have them call me or he would call and
17 say would you give this person a call.

18 Q Do you have any knowledge of whether
19 Mr. Nash talked to anyone associated with AHDA while
20 you were there about underwriting firms?

21 A I have no knowledge that that ever
22 happened.

1 Q How about after you left?

2 A I don't have a clue what happened after I
3 left. I was too busy pursuing my career. I was
4 gone. You know, I was not working for the state
5 anymore.

6 Q Other than Mr. Nash, did you have contact
7 with anyone else in the governor's office?

8 A Let me ask you something, Michael. When
9 you say "contact," I mean are you meaning business
10 contact or just saying hi to somebody in the hall, or
11 what do you want to know?

12 Q Well, just generally to set up the
13 background I would like to know about any contact,
14 and then I can ask you specifically.

15 A No. I knew Maurice Smith.

16 Q How did you know him?

17 A He's from Birdeye, Arkansas which is only
18 five miles from where I grew up, but I don't know him
19 personally. I knew his name, and I met him at the
20 governor's office one day, but that's the only
21 contact I ever had with him.

22 Q Did you have contact with the governor

1 during the time you were there?

2 A Not often.

3 Q How many times would you say you had
4 contact or communications with the governor?

5 A Okay. That's a two-part question. I would
6 see the governor quite often at seminars where he was
7 speaking, you know, that kind of stuff. I mean this
8 is a small state, and I was working for a state
9 agency, so we were always going to HUD seminars. I
10 was involved in the Mortgage Bankers of Arkansas, and
11 everybody would always ask the governor to speak at
12 these things, okay? So I was always seeing him at
13 functions such as this, but it was only a handshake
14 and how are you.

15 There was only one incident where I had
16 really any substantial involvement with the
17 governor's office or the governor, and that was
18 during the time -- and I think it was 1980- -- it
19 might have been '83, it might have been early '83 but
20 it was probably '82 when we were concerned that the
21 legislature was going to put an end to the tax exempt
22 housing bonds, and I think the governor flew to

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1 Washington to testify in front of Congress concerning
2 not ending the sale of tax exempt housing bonds
3 because state agencies needed it.

4 And Charlie Stout, the chairman at the
5 time, and myself flew to Washington with him. And
6 the sole purpose of me being along was to inform him
7 of all the legislation and all the stuff that was
8 going on about the tax exempt housing bonds, and how
9 many low-income families we had helped through these
10 programs over the past five years, that type of
11 stuff.

12 Q Did the governor have any role in your
13 becoming executive director of the agency?

14 A You know, I don't know for sure but I would
15 assume that he did. I was aware, as in probably
16 every state, when you're an executive director of a
17 state agency, even though I don't think the governor
18 made the decision on who the executive director was
19 going to be, I think the board of directors out of
20 courtesy would make the governor's office aware of
21 who they were going to choose, okay, as the new
22 executive director. And I knew that would happen,

1 although I don't think he made the decision.

2 I did call Bob Nash and asked to arrange a
3 meeting with the governor and I so that I could tell
4 him that I wanted this position. It's the first time
5 I had ever had any conversation with Bill Clinton,
6 and I maybe was at his office for 30 minutes. And I
7 told him that I was not political, that I had been
8 with the agency since its inception in 1978 or '79
9 since our first bond issue, and that I had served as
10 deputy director for a couple of years and more or
11 less run most of the programs, multifamily and single
12 family housing. And I told him I felt that I was
13 more qualified than anyone else for that position and
14 I wanted his support.

15 He did not tell me -- I told him I wanted
16 to run the agency as a business, and that was it. He
17 shook my hand and said he appreciated me coming
18 over. I didn't have any indication from him whether
19 he would support me or not in this role, but a couple
20 of weeks later, the board of directors did promote me
21 to executive director of Arkansas Housing, but I do
22 think it was the board of directors' decision. They

52

1 interviewed me first, and I felt that they probably
2 were playing in my favor because of my experience
3 with the agency.

4 Q Now, at any time during your tenure at
5 AHDA, did you have any conversations with the
6 governor about different underwriting firms in the
7 state?

8 A No.

9 Q I have a document here, I'll read the first
10 part first. It's two pages, one page is a letter and
11 the other page is a copy of the envelope it came in.
12 It's dated March 31, 1983. It's on Collins, Locke &
13 Lasater letterhead, and it's addressed to "the
14 Honorable Bill Clinton" and signed "David A.
15 Collins." It reads "Dear Governor Clinton, I'm
16 writing to express Collins, Locke & Lasater's
17 enthusiastic support of the appointment of Ms. Linda
18 Trent to the position of executive director of the
19 Arkansas Housing Development Agency."

20 Were you aware or are you aware whether
21 David Collins of Collins, Locke & Lasater ever wrote
22 a recommendation for you for your appointment as

1 executive director?

2 A No, I wasn't.

3 Q Do you know who David --

4 A I don't know David Collins. I've never met
5 him. The only person I ever knew from Collins, Locke
6 & Lasater was Michael Drake. However, I'm sure -- I
7 know that, keep in mind, the state agency dealt with
8 over 100 banks in the whole state of Arkansas, and I
9 know that a lot of the banks -- I don't know about
10 Collins, Locke & Lasater, or underwriting firms.

11 I know that there were a lot of letters
12 that went from the bank that I had worked with in
13 previous single family housing programs who wrote
14 letters to the governor's office and to the board of
15 directors, supporting me because they felt that I
16 could do a good job. And they knew I knew the
17 program, you know, because I had worked with them for
18 all these years.

19 I was never aware of a letter that came
20 from Collins, Locke & Lasater to anybody.

21 Q Do you know any reason why they would write
22 a letter recommending you as the executive director?

1 A No, I do not.

2 Q While you were at the agency, was the
3 exertion of influence to choose one underwriter over
4 the other ever exerted by the governor's office that
5 you know of?

6 A No, not that I'm aware of. Never to me.

7 Q And you never heard about that happening
8 with the board?

9 A No.

10 Q Was there any talk of that after the April
11 19 inclusion of Collins, Locke & Lasater as one of
12 the underwriters?

13 A No, I don't know. I'd like to say that it
14 makes sense there would be but I don't recall any.
15 You know, I know there was a lot of little
16 discussions going on concerning it, but you know, if
17 you've ever worked for a state agency before, there's
18 a lot of gossip that goes on and you just, you know,
19 can't do business listening to all of it.

20 So I don't know. I don't remember being
21 involved in any discussions about that kind of stuff.

22 Q Do you remember if that was a concern of

1 yours when that happened, when they were tacked onto
2 the underwriting group?

3 A Well, as I said before, I don't know if
4 "concern" is the right word. You know, I didn't
5 know why we included them at a later date. I do
6 think we had their bid, but the inclusion was after
7 we had already chosen underwriters. And I had a
8 question concerning that obviously in my mind,
9 because during my short time there, it hadn't
10 happened before.

11 Q I'm just curious as to whether you formed
12 any conclusions or thought about different scenarios
13 of how they would have been added on after the group
14 had already been chosen.

15 A Nah. Unless I know something for a fact --
16 you know, I can dream up anything, so can you. I
17 don't know.

18 Q You've testified that you spoke with Bob
19 Nash and you told us the circumstances of your
20 conversations with Mr. Nash, and you also said
21 that -- told us about a conversation you had with the
22 governor. Did you have any contact with anyone else

56

1 at the governor's office?

2 A Not that I can remember, Michael. Are you
3 referring to the governor's office when Bill Clinton
4 was governor or just any time?

5 Q We're referring to 1983 on.

6 A Okay.

7 Q After Collins, Locke & Lasater was added to
8 the underwriting team during the April 19 special
9 executive meeting and after -- actually at any time
10 after that, was there any additional review done of
11 the firm that you're aware of?

12 A Not that I'm aware of.

13 Q I've got a letter here from Stephens, Inc.
14 dated April 28, 1983 addressed to Mr. Charles Stout,
15 and it's signed Gene Wilburn. There's actually a cc
16 on it to you and to Bill Clinton.

17 A Yes.

18 Q Actually I'll read you the first paragraph
19 and then go to the fourth one. "Dear Chairman Stout,
20 it is with regret that I must inform you that
21 Stephens, Inc. is withdrawing from the multifamily
22 housing issue for which we were recently selected as

1 co-manager along with Merrill Lynch, Pierce, Fenner &
2 Smith and T.J. Raney & Sons."

3 Actually the third paragraph reads "It has
4 been our belief that the chief reasons for the
5 splendid success which has been enjoyed by the
6 agency's bond offerings in the marketplace have been
7 one, conservatively structured programs, two,
8 competent professional staff, three, a strong
9 independent board of directors which functioned
10 without outside interference by political or other
11 interests. As a result of these factors, the issues
12 of the agency have always been favorably received at
13 better than market rates. The bonds continue to
14 trade extremely well on the secondary market because
15 of a perceived agency stability."

16 Then it goes on, "A guiding principle of
17 the agency from its inception has been the
18 requirement that professional firms, including bond
19 counsel and underwriters, be selected on the basis of
20 merit through written and oral presentations. With
21 the exception of the most recent single family issue,
22 the agency has seen fit to select only those

1 underwriters with the most superior combination of
2 credentials which would benefit the agency, namely
3 sufficient capital to underwrite, strong sales
4 capability, in-house technical expertise and the
5 ability to continue to make a mark in the secondary
6 market. With this understanding, Stephens, Inc.
7 responded.

8 "We are very pleased at becoming
9 co-manager and are looking forward to beginning work
10 immediately. In the meantime, the board decided
11 without discussion to add to the underwriting group a
12 firm which did not submit a proposal under the agency
13 proposal procedures, which invited individual firm
14 proposals.

15 "Although it is certainly the agency's
16 privilege to appoint any firm, we would invite you to
17 investigate more carefully whether the added company
18 meets the standards of capital, experience, sales
19 capability, staff service and market support which
20 have been the preference of the board in all previous
21 issues. We are concerned that such actions may be an
22 indication of an erosion of the independence of the

1 board of directors which, publicly perceived, can
2 only be received adversely in the market.

3 "It is therefore with reluctance that we
4 withdraw from this issue. We are hopeful this action
5 will not preclude us from participating in future
6 offers of the Arkansas Housing Development Agency,
7 assuming the selection is made on merit and
8 experience."

9 Do you recall receiving a copy of that
10 letter?

11 A Yes, I do, and that letter in fact was
12 delivered to me, I think, I don't know that it was
13 mailed, and it was just a couple of days after my
14 meeting with Charlie Crow that I spoke of.

15 Q Were these the similar concerns that
16 Mr. Crow brought up during your meeting with him?

17 A Yes.

18 Q And to your knowledge, is this letter
19 addressed to the inclusion of the Lasater firm in the
20 April 19 meeting?

21 A I'm sorry, repeat that.

22 Q Sure. Is this letter referring to the

1 inclusion of the Lasater -- Collins, Locke & Lasater
2 firm being included in the April 19 letter as far as
3 you know?

4 A As far as I know, it was.

5 Q Did you have any conversations about this
6 letter with anyone?

7 A You know, Michael, you would think that I
8 would but I don't recall it. I'm sure I probably
9 shared it with, you know, the board, but I don't
10 recall any specific conversations. I mean I knew
11 after Charlie left my office Stephens was going to
12 resign from the account. He told me that. And I
13 knew that he was going to submit a resignation
14 letter, or someone was.

15 Q Why did you know they were going to leave?

16 A He told me. That's the purpose of him
17 coming over to the office to talk to me.

18 Q Was there any discussion about the ability
19 to remove Collins, Locke & Lasater from the
20 underwriting group?

21 A Well, the only discussion was what I told
22 you earlier, is that he asked me to talk to the board

1 and persuade them to take Collins, Locke & Lasater
2 off the account.

3 Q And what did you do? You referred it to
4 Mr. Stout?

5 A Yes, I did.

6 Q Do you know if he ever talked to the board
7 about it?

8 A I don't know.

9 Q Did you have any reason to believe that
10 Collins, Locke & Lasater wouldn't be pulled from the
11 deal?

12 A I think my personal opinion at the time was
13 it wasn't even appropriate that Stephens come and ask
14 me to do that. I mean you can't allow an
15 underwriting firm, in my opinion, to control who they
16 are going to work with on a state agency, or Stephens
17 would be in a position to tell us what to do any time
18 we had an issue.

19 So they submitted a proposal. Our board of
20 directors made the decision to include Stephens as an
21 underwriter. It was up to them to determine whether
22 they wanted to do that or not. So it was perfectly

1 up to them to determine whether to resign from the
2 account.

3 But I still think it's inappropriate for
4 any underwriting firm to come to a state agency and
5 try and persuade them to fire somebody else that the
6 board of directors had hired. I mean then -- I mean,
7 you know, that's not appropriate.

8 And I think I shared those concerns about
9 that particular aspect with Charlie Crow. That's not
10 to say that I wanted to include Collins or didn't
11 want to include them. I mean it's just to say that I
12 don't think that's appropriate behavior either.

13 Q Did they --

14 A But that was a board of directors decision,
15 not an executive director's decision, on either call.

16 Q Did you think he had legitimate concerns
17 about the later inclusion of the Collins, Locke &
18 Lasater firm? Did he have a reason to be upset?

19 A Do I?

20 Q Yes.

21 A You know, I'll be honest with you, Michael,
22 I did question it, and I still don't know why it was

1 done, so you know, I can't give you any information
2 on that. The board of directors made the decision,
3 and I was not included in that decision.

4 I don't think "upset" is the word to use.
5 It had not happened since I had been at the agency,
6 so I didn't understand why it did, but I don't think
7 I was upset about it.

8 Q Well, I guess my question was more geared
9 towards whether you thought it was legitimate for
10 Mr. Crow to be upset for a firm to be chosen after
11 the process had already been completed and the firms
12 had been added to the list, you know, on April 12,
13 and then April 19 another firm is tacked on?

14 A I think that was an appropriate reaction
15 for an underwriter if he didn't want to work with
16 him, but I think it was inappropriate to ask the
17 state agency to fire somebody or they were going to
18 quit. I mean I don't think anybody should threaten
19 to quit an account if you don't like what they want
20 you to do.

21 Q Did he express concerns to you during your
22 meeting about the erosion of independence of the

1 board of directors?

2 A I think he did, but you know, that's just
3 another way to persuade me to do what he wanted me to
4 do too.

5 Q Okay.

6 A I didn't see that happening. I think our
7 board of directors acted independently on all
8 issues. We had a pretty active board of directors,
9 and I think they were all pretty well-qualified for
10 that position.

11 Q But you have no explanation for why they
12 added the Collins, Locke & Lasater firm after the
13 fact?

14 A That's right, I have no -- I was not
15 involved in any of it and I have no idea. I don't
16 know why the decision was made.

17 Q Did you have any discussions with anyone at
18 Collins, Locke & Lasater after Stephens, Inc. pulled
19 out of the deal?

20 A No. I purposely did not talk to anyone
21 about it except Charlie Stout.

22 Q Why was that?

1 A I didn't think it was anybody else's
2 business. I mean it was -- as I said earlier, why
3 would I do that? Why would I call Collins, Locke &
4 Lasater and tell them what another underwriting firm
5 said about them?

6 Q I'm just curious after just the event of
7 them pulling out. That had to be an unusual event;
8 right?

9 A Yes, it was an unusual event, but I never
10 discussed it with somebody. I stayed completely out
11 of it. As I told you earlier, I was not a political
12 appointee in my opinion, and I didn't have a
13 one-on-one relationship with the governor or with any
14 of these people you're talking about. I was more or
15 less staff that was promoted, you know, in the ranks
16 of the agency.

17 I worked with the people that worked, you
18 know. I worked also, so I worked on the accounts
19 with the workers from Collins, Locke & Lasater. I
20 worked on the accounts with the contact people from
21 T.J. Raney and Stephens when it was appropriate, and
22 with E.F. Hutton and Merrill Lynch or whoever the

1 lead underwriter was.

2 But, you know, I was not contacted by
3 anybody at the governor's office or the heads of
4 these underwriting firms to do anything.

5 Q Are you aware of any political influence
6 that was brought to bear to hire any firms that did
7 work for AHDA while you were there?

8 A No.

9 Q Either law firms or banks, what have you?

10 A No.

11 MR. O'CALLAGHAN: I don't believe I have
12 any further questions at this time.

13 MR. FEUER: Off the record for a moment.

14 (Discussion off the record.)

15 (Recess.)

16 EXAMINATION

17 BY MR. FEUER:

18 Q Ms. Chandler, let me introduce myself
19 again. My name is Mitchell Feuer; I am a Democratic
20 counsel on the staff of the Senate Banking
21 Committee. And for purposes of today's deposition,
22 I'll be asking you questions on behalf of the

1 Democratic Senators who sit on the Senate Whitewater
2 Committee.

3 The procedures that we employ in these
4 depositions are that the Republicans go first and the
5 Democrats go second, and for that reason there will
6 be some repetitiveness to my questioning, and I
7 apologize for that in advance.

8 If you don't hear my question, please let
9 me know and I will repeat it. If you don't
10 understand my question, please let me know and I will
11 rephrase it so that we understand one another. If
12 you want to go off the record at any time for a break
13 or to confer with your counsel, please let me know
14 and we will do that.

15 And for the sake of clarity, let me
16 apologize in advance if I refer to you at any point
17 as Linda Trent or Ms. Trent, because the documents
18 that we have looked at from 1983 identify you as
19 Linda Trent, which was your name at that time.

20 Ms. Chandler, when did you begin working
21 for the Arkansas Housing Development Agency?

22 A I believe it was March of 1979.

1 Q And who was the governor of Arkansas at
2 that time?

3 A Bill Clinton.

4 Q Did you continue to work at the Arkansas
5 Housing Development Agency while Frank White was
6 governor of Arkansas?

7 A Yes, I did.

8 Q Did you continue working at the Arkansas
9 Housing Development Agency after Bill Clinton
10 defeated Frank White and became governor of Arkansas
11 again?

12 A Yes, I did.

13 Q Did you meet with Governor Clinton before
14 you became executive director of the Arkansas Housing
15 Development Agency?

16 A Yes, I did.

17 Q Did you tell him you were not political?

18 A Yes, I did.

19 Q What did you mean by that?

20 A I meant that I didn't -- I was not a
21 political appointee, that I wanted to run the agency
22 as a business. I mainly wanted him to know that I

1 wanted the position because of my expertise in the
2 area, not for anything else. And let me go back and
3 say, is that during the Republican governor?

4 Q Yes.

5 A The executive director was appointed in my
6 opinion because he was political. I mean it was John
7 Paul Hammerschmidt's brother, Bob Hammerschmidt, who
8 I loved and admire; however, the executive director
9 that was there when Bill Clinton was defeated
10 resigned as executive director and Bob Hammerschmidt
11 was put on because he was a Republican, I believe.

12 Q Who is John Paul Hammerschmidt?

13 A He used to be a representative from
14 Arkansas.

15 Q And was he a Democrat or Republican member
16 of Congress?

17 A He was a Republican.

18 Q What did you mean when you told Governor
19 Clinton that you would run the agency like a
20 business?

21 A Well, I guess I was referring to the two
22 years that I was there when Governor White was

1 governor, who was a Republican governor, and it
2 appeared to me that they were pretty involved in the
3 day-to-day affairs of state agencies, and I wanted to
4 be the executive director of Arkansas Housing but I
5 wanted to run it as a -- like a private business
6 rather than being in contact with the governor's
7 office all the time and that kind of stuff. And it
8 was.

9 Q During this meeting, did Governor Clinton
10 indicate to you that should you become executive
11 director, he wanted you to favor certain firms in
12 AHDA bond underwriting business?

13 A Absolutely not.

14 Q Did he indicate to you that he wanted you
15 to exclude certain firms?

16 A Absolutely not. It was a very short
17 meeting, and he listened to me most of the time.

18 Q Did you become executive director of AHDA?

19 A Yes, I did. Can I go back a minute?

20 Q Sure.

21 A I didn't go to the governor's office to ask
22 him to hire me as executive director. I went to the

1 governor's office so that he would know who I was and
2 hopefully be convinced that I was capable of running
3 the agency, because the executive -- the board of
4 directors was going to hire the executive director,
5 but I knew from past experience that they were going
6 to run the name by the governor's office, so I just
7 wanted him to be aware that I was capable and I had
8 the experience to run the agency, so that when my
9 name came up, he wouldn't say, you know, I don't know
10 if she can do it or not.

11 So the purpose of going to the governor's
12 office wasn't to ask him to hire me.

13 Q Had that happened before, that they had run
14 the name of the executive director by the governor's
15 office when a new executive director was hired?

16 A During the Frank White administration, yes,
17 it did.

18 Q At the time that Collins, Locke & Lasater
19 was included as an underwriter for AHDA multifamily
20 bonds, had Collins, Locke & Lasater already been
21 selected as one of the agency's underwriters for
22 single family bonds?

1 A You know, I want to think that they were,
2 but I don't remember for sure. I thought I recalled
3 that Collins, Locke & Lasater had been an underwriter
4 on single family issues, but Mr. Feuer, I don't know
5 if it was before the multifamily issue or after the
6 multifamily issue, but I believe they were. I don't
7 remember for sure.

8 Q Mr. O'Callaghan earlier read you portions
9 of AHDA board minutes from March and April of 1983.
10 If I represent to you that we have in our possession
11 an AHDA subcommittee meeting minutes of February 17,
12 1983 which indicates that the Dabbs Sullivan Division
13 of George K. Baum, Blyth Eastman, PaineWeber, T.J.
14 Raney & Sons, Stephens, Inc. and Collins, Locke &
15 Lasater had been chosen as underwriters for the
16 agency's single family bond program, does that
17 refresh your recollection as to whether Collins,
18 Locke & Lasater had already been chosen as an
19 underwriter of single family bonds?

20 A Yes, it does. It all happened closely
21 together, as you can see by the dates, and I knew
22 that they had, but I kind of was thinking the single

1 family issue came after the multifamily, but it's
2 been a long time ago, so that's why I was confused as
3 far as the dates, but yeah, that was like the month
4 before.

5 Q When the AHDA selected underwriters for the
6 agency's multifamily bonds, was Merrill Lynch
7 selected as lead underwriter?

8 A Yes, I believe they were. And I think the
9 '83 single family I think was a refinance of an
10 older issue.

11 Q What role does a lead -- strike that.
12 What role did a lead underwriter perform in
13 the agency's bond offerings at that time?

14 A Everything. I mean they really did all of
15 it. To my knowledge, I think mostly the local
16 underwriters were called on to sell blocks of bonds,
17 and they did attend all the meetings, and they were
18 more or less the eyes and ears of the senior
19 underwriters.

20 But as far as putting the package together,
21 setting up the meetings with Moody's and Standard &
22 Poor's in New York for bond writing, issuance of the

74

1 bonds, they did all that, the lead underwriters did
2 all that.

3 Q Did the lead underwriter receive the
4 largest allocation of bonds to be issued?

5 A Yes.

6 Q And did the co-managers share among
7 themselves the remaining bonds to be issued?

8 A Yes.

9 Q When the AHDA selected Merrill Lynch as
10 lead underwriter, and T.J. Raney and Stephens, Inc.
11 as co-managers of the multifamily bond issue, would
12 the T.J. Raney firm and Stephens, Inc. have shared
13 between themselves the bonds that were not allocated
14 to Merrill Lynch?

15 A Yes.

16 Q Would inclusion of Collins, Locke & Lasater
17 as a co-manager of that issue mean that the T.J.
18 Raney firm and Stephens, Inc. would share the same
19 amount of bonds among three firms rather than among
20 two firms?

21 A That's correct.

22 Q So the Stephens, Inc. firm and the T.J.

1 Raney firm would each have a smaller number of bonds
2 to sell in that issue?

3 A That's correct.

4 Q What does it mean to an underwriting firm
5 if they have a smaller number of bonds to sell?

6 A It means they make less money on the
7 issue. It means that the money that the two firms
8 locally would have made would be split three ways
9 rather than two, so they would make less money on
10 this issue with the inclusion of a third local
11 underwriter.

12 Q Was Stephens, Inc. a -- strike that.

13 Was Collins, Locke & Lasater a competitor
14 of Stephens, Inc. at that time?

15 A Yes.

16 Q Ms. Chandler, is it your understanding that
17 Lasater & Company and Stephens, Inc. were both
18 included in various bond issues that AHDA and its
19 successor, ADFA, made in 1983, 1984 and 1985?

20 A I guess I can only speak for 1983 when I
21 was there, and they were called Collins, Locke &
22 Lasater firm, not Lasater & Company, and the answer

1 would be yes. But as far as '84 and '85, I was gone
2 from the agency and I don't know.

3 Q Were you aware of any reason in 1983 that
4 Collins, Locke & Lasater did not qualify to
5 participate in AHDA bond underwritings?

6 A No.

7 Q Have you learned anything since that time
8 that suggests to you that they were not qualified to
9 participate in AHDA bond underwritings in 1983?

10 A No.

11 Q From the time you joined AHDA through 1982,
12 how many underwriting firms taken together did the
13 Arkansas Housing Development Agency use in issuing
14 bonds?

15 A Well, I think I can name them. We usually
16 got the same groups proposing bids. E.F. Hutton,
17 Merrill Lynch, PaineWebber, Dabbs Sullivan -- which
18 is a division of George K. Baum -- T.J. Raney,
19 Stephens, Inc., Collins, Locke & Lasater. And I
20 think Prudential Bank. They may not have been
21 involved in it, they may have just submitted a bid.
22 But I would say seven or eight.

1 Q Did that number increase beginning in 1983?

2 A Yes, it increased by three. I think '83
3 was the first time that Dabbs Sullivan was included,
4 it was the first time that PaineWebber were included,
5 and it was the first time that Collins, Locke &
6 Lasater was included.

7 Q Did the Clinton administration beginning in
8 January 1983 have a policy of including a greater
9 number of underwriting firms in state bond business?

10 A Yes. I don't know that the governor's
11 office actually said that specifically, but from 1979
12 the sale of tax and housing bonds was relatively new
13 for financing houses, low-income housing in the '70s,
14 and we started Arkansas Housing Development Agency in
15 1978, I believe, the latter part, and I think the
16 first issue was either the latter part of '78 or
17 early part of '79.

18 I know that I was underwriting the first
19 bond issue when I went to work there, and from
20 inception of the agency until early 1983, I believe
21 the only underwriters we had used was E.F. Hutton,
22 Stephens, Inc. and T.J. Raney. And Merrill Lynch

1 might have been involved as a co-manager on one issue
2 prior to January of '83.

3 So it was discussed that we needed to
4 spread the business around a little, you know, and
5 not give it to the same underwriting firms each
6 time. And so it was in early '83 that PaineWebber,
7 Dabbs Sullivan, a division of George K. Baum, and
8 Collins, Locke & Lasater was included in an issue.

9 Q Who discussed that?

10 A You mean who discussed it with me?

11 Q Yes.

12 A I believe it was discussed by board
13 members, Mort Hardwicke, probably Tommy Edwards and
14 Mort Hardwicke. James Branyan was a board member at
15 that time, and I think chairman at one point while I
16 was there. So obviously we discussed it among the
17 staff too.

18 Q Did you think that it would be beneficial
19 to the agency to have a greater number of
20 underwriters participating in the agency's bond
21 issues?

22 A Yeah, I think I did.

1 Q Why was that?

2 A Well, if you're going to use the same
3 underwriters each time, you're not going to get
4 competitive bidding. If they know they are going to
5 get the issue because they have experience and that's
6 all there is to it, then they can bid whatever they
7 want and they know you're going to choose them.

8 So you want to make it competitive so you
9 can make their bid more competitive, so you have more
10 mortgage money to supply to Arkansas. You don't want
11 to spend all your \$100 million bond issues in fees.

12 So yeah, I think it was good.

13 Q Ms. Chandler, do you recall an AHDA board
14 meeting where a board member made a motion that
15 Collins, Locke & Lasater be included as an
16 underwriter for the agency's multifamily bond issues?

17 A I do recall it now.

18 Q Was that motion made at a special executive
19 board meeting?

20 A I believe it was.

21 Q For what purpose was that special executive
22 board meeting called?

1 A I don't remember. I didn't even recall it
2 until part of the minutes were read to me a few
3 minutes ago, but it's been a long time ago. I do
4 recall it now, but I don't recall what the meeting
5 was called for, unless it was for this specific
6 reason, and I don't know that to be a fact.

7 Q If I told you that the minutes of the April
8 19, 1983 special executive board meeting of the
9 Arkansas Housing Development Agency indicate that
10 Mr. Hardwicke called the meeting to order at 4:10
11 p.m. and informed the board members that the special
12 meeting was called for the board to take action and
13 officially approve the documentation for the 1983
14 single family issue which was sold last week, and
15 that that statement begins on page 1 of those
16 minutes, and that on page 3 those minutes state
17 further that "upon Mr. Hardwicke's request for
18 further business, Mr. Wright made a motion that
19 Collins, Locke & Lasater be added to the underwriting
20 team for the agency's proposed 1983 multifamily
21 issue," do you have any reason to think that the
22 special executive board meeting was called for any

1 purpose other than what's stated on page 1?

2 A No. In fact, it does jog my memory. You
3 all will have to excuse me because I don't have a
4 good memory. I haven't seen any of this
5 documentation or I probably could answer a whole lot
6 clearer about this stuff. But we were -- I believe
7 at that time we had tried to go to issue these bonds
8 a couple of days, and the market kept fluctuating,
9 and we were trying to go to market in a very short
10 period of time to get the best rate possible.

11 So yeah, that does jog my memory, and that
12 would have been an appropriate reason for calling a
13 meeting at 4:10 in the afternoon, because if our lead
14 underwriters called and said it's time to hit, you
15 know, the iron is hot, if we sell these bonds
16 tomorrow morning we can probably get a quarter
17 percent better rate on your bond issues, then we
18 would have called a special meeting and we would have
19 said go for it, you know.

20 We did that often, because you wanted to
21 get in the market when you can get the lowest
22 interest rate for your homeowners.

1 So yes. And I believe that's probably what
2 happened.

3 Q Is it your recollection that despite what
4 Mr. Crow said to you about Stephens, Inc. not wanting
5 to participate in bond issues with Collins, Locke &
6 Lasater, that those two firms continued to
7 participate in the same bond issues after your
8 meeting with Mr. Crow?

9 A You know, I left in '83. They did not
10 participate while I was there, but -- and I don't
11 know this for a fact, but I do think that they did
12 participate at a later date with Collins, Locke &
13 Lasater with issues with Arkansas Housing, or ADFA,
14 but that would have come from a third party; it
15 wouldn't be firsthand knowledge on my part because I
16 was gone.

17 Q Do you know where Michael Drake worked
18 before he came to work at Collins, Locke & Lasater?

19 A No. I didn't know him until then.

20 Q Did you ever learn that at one time
21 Mr. Drake had worked at Stephens, Inc.?

22 A If I knew it, I had forgotten it. I don't

1 think I ever knew that.

2 Q If I represent to you that at one time
3 Mr. Drake did work for Stephens, Inc., does that
4 stimulate any additional recollection with regard to
5 Stephens, Inc.'s withdrawal from the AHDA bond
6 issues?

7 A No, I don't think it would, because I don't
8 think I knew it, but even if I had known it, I don't
9 think it's unusual for bond underwriters to switch
10 firms. I mean I have some friends, who have never
11 done business with Arkansas Housing or ADFA, but that
12 have worked at several different bond underwriting
13 firms in Little Rock, so I don't think it would have
14 made any difference as far as in my mind.

15 I really believe that Stephens was upset
16 for a number of reasons. I think they didn't want to
17 do business with them for some reason, maybe it had
18 to do with Michael Drake, I don't know, but I think
19 there was maybe, you know, something there. I think
20 it was going to decrease their take on this bond
21 issue, it was going to lower the amount of money they
22 were going to make on it if you included a third

1 local underwriter, and maybe they were upset about
2 the fact of them being included a week later.

3 So maybe a combination of all three of
4 those things is what set Stephens off. And I can
5 only speculate. That's what he told me.

6 Q Was it your impression at that time that
7 the underwriting business was a competitive business?

8 A Yes, I think I've always known the
9 underwriting business was a competitive business.
10 There's a lot of money in it.

11 Q Was it your impression that underwriting
12 firms tried to get as much business for themselves as
13 they could?

14 A Yes.

15 Q Did you ever form an impression that there
16 was an erosion of independence on the part of the
17 AHDA board?

18 A No.

19 Q In selecting underwriters to participate in
20 AHDA bond issues, was the AHDA board primarily
21 concerned with which firms could raise money for the
22 state of Arkansas most cheaply?

1 A Would you repeat that?

2 Q Let me rephrase it. In selecting
3 underwriters to participate in AHDA bond issues, were
4 the board members trying to find underwriters who
5 could raise money for the state of Arkansas most
6 cheaply?

7 A Yes.

8 Q Were the board members concerned about
9 which political candidates one firm had supported or
10 another firm had supported?

11 A No.

12 Q Ms. Chandler, in your experience, did
13 private sector individuals and firms make
14 recommendations to the governor's office concerning
15 appointments to the AHDA board?

16 A All the time.

17 Q Was it something out of the ordinary?

18 A Not at all.

19 Q Did members of the state legislature make
20 recommendations regarding board appointments as well?

21 A I don't think I have any knowledge of
22 that. I don't think I would know. I wouldn't think

1 it would be unusual. Everybody wants to think they
2 are important enough for somebody to listen to.

3 Q Did the private sector firms that made
4 recommendations to the governor's office regarding
5 AHDA board appointments include underwriting firms?

6 A I wouldn't think so. I never knew of that
7 happening. You know, basically as far as
8 recommendation letters that I'm aware of, the
9 Arkansas Housing Development Agency provided low
10 interest rate loans for low to moderate income
11 families purchasing a first-time home in Arkansas.
12 At the time the interest rates were usually pretty --
13 were higher, quite a bit higher than that, so
14 obviously local banks all over Arkansas, not just in
15 Little Rock but all over the whole state, were very
16 interested in getting some of these funds to provide
17 money for their community, you know, for their people
18 to get a home. So they wanted people at Arkansas
19 Housing Development Agency to know what they were
20 doing.

21 I would like to think, if you're referring
22 back to this recommendation from Collins, Locke &

1 Lasater, for instance, for me, I didn't know them,
2 but I would hope that it would be because I had a
3 good reputation in the industry, that I was going to
4 be fair about the allocation procedures and the
5 process of the underwriting of the loans, and that's
6 why people would recommend hiring me to the executive
7 director's position. At least I would hope that that
8 was the case. And I think that my reputation was
9 that in Arkansas at the time. So I don't see it as
10 unusual.

11 Q Do you think it's possible that if somebody
12 heard that you were likely to get the job as
13 executive director, that they might think it couldn't
14 hurt to send a letter of recommendation on your
15 behalf even if they didn't know you?

16 A Absolutely. I think it would be good
17 business. If I saw a copy of a letter from somebody
18 that I might eventually work with that recommended me
19 for any reason, yeah, I'd feel probably better about
20 that firm. I mean it would probably be good business
21 on their part to do it. It wouldn't mean that I had
22 any connection with them at all.

1 MR. FEUER: I have no more questions at
2 this time.

3 EXAMINATION

4 BY MR. O'CALLAGHAN:

5 Q I have a couple of issues I want to flesh
6 out from Mr. Feuer's examination. I think you stated
7 earlier that you thought there was a policy that the
8 Clinton administration had of including more firms,
9 underwriting firms within AHDA bond offerings?

10 A Yeah, Michael. I don't know if it was -- I
11 don't know if it was a policy. I know that that was
12 what I heard, that they wanted to spread the business
13 around some, state business.

14 Q Do you know who Wooten Epes is?

15 A Yes.

16 Q Was he your successor in your position?

17 A He was the executive director after I left.

18 Q I got a newspaper article here which bears
19 the Bates stamp DKS N 026009. It's entitled "List
20 shows firms share state bond business." October 10,
21 1986. And the second page of the article, two
22 paragraphs, it reads "In response to charges about

1 Lasater, Clinton has said it has been the policy of
2 his administration to spread bond business among 15
3 different firms. The list does show that the number
4 of firms involved in bonding has increased, but
5 Wooten Epes said that was not because of a policy
6 directive from the governor's office. 'There's not
7 been one since I came here and I don't know of any
8 before I came,' he said."

9 Is that an accurate statement by him, as
10 far as you know?

11 A Well, as far as I know. I don't know what
12 Wooten Epes knows and what he doesn't know. We're
13 not that close of friends, but like I said, I don't
14 know that I could say it was a policy. Nobody ever
15 from the governor's office called me and said we want
16 you to spread the business around. I think we
17 discussed that we didn't want to use the same firm
18 each time, not every time. You want to make it more
19 competitive, so I think that's probably an accurate
20 statement from Wooten, to my knowledge.

21 Q Mr. Feuer referenced a February 17, 1983
22 subcommittee meeting of the Arkansas Housing

1 Development Agency?

2 A Right.

3 Q And then in the second paragraph of that,
4 the first page reads "Chairman Stout called the
5 meeting to order and stated that the purpose of the
6 meeting was to discuss a proposed solution to the
7 problems with the current single family bond
8 program. After discussion it was determined that the
9 composition breakdown of underwriters in this
10 proposal be as directed below." Then there's the
11 names Dabbs Sullivan, Blyth Eastman, T.J. Raney,
12 Stephens, Collins, Locke & Lasater. You said you
13 recall that happening?

14 A Yes, I do. Like I said, you guys caught me
15 cold because you didn't send me anything to look at
16 and I don't have a wonderful memory, but I believe
17 that February single family issue that you're talking
18 about was a refinance of an old issue where the
19 interest rates went down closer to what the old
20 single family rates were, so it was becoming hard for
21 us to get the rest of that money out.

22 So it was PaineWebber and Dabbs Sullivan

1 that brought a solution to that problem to the board
 2 at some point in time before this February meeting --
 3 I don't know when it was, maybe end of '82 -- which
 4 was called a refinancing or refunding of that earlier
 5 issue.

6 And I'm not exactly sure how you do it, but
 7 they called the bonds back in, I think, and then
 8 reissue them at a lower interest rate so that it's
 9 more competitive, you can get the money out and you
 10 don't have to call it and lose money on it.

11 That's the problem that Charlie Stout was
 12 referring to as far as single family. We had done
 13 studies, we had really worked on this hard, and
 14 determined that if we couldn't sell the bonds at a
 15 certain interest rate, we shouldn't sell, okay.

16 So there was a cap. And the reason this
 17 meeting was probably called, I mean this is -- I'm
 18 fairly sure that I'm right about this -- is there was
 19 a window that we could sell the bonds, if we would
 20 hurry up and do it maybe the next morning, we might
 21 could get them all out and get the rate that we
 22 needed to get, but if we waited any longer, you know,

92

1 we might be out of the market again and have to wait
 2 another two weeks or a month to catch a window to
 3 sell them at a lower rate.

4 So I'm pretty sure that's what was
 5 happening in this case, and that's why he said to
 6 discuss the problems of the single family issue,
 7 because we were recalling or refinancing, refunding
 8 an earlier issue to make available lower interest
 9 rate funds, and it was real important that we do it
 10 in a real short window that was there. So I have no
 11 reason to believe that wasn't the purpose of this
 12 meeting.

13 Q Do you recall if you had ever even heard of
 14 Collins, Locke & Lasater before they were chosen to
 15 be on this group?

16 A You mean for the single family?

17 Q Yes, ma'am.

18 A I don't think I had. I mean prior to
 19 working for Arkansas Housing, I was in the mortgage
 20 business here in town, and I was a loan processor.
 21 That's why I got this job with Arkansas Housing as a
 22 loan underwriter, because I was familiar with

1 mortgages and deeds and surveys and all the stuff
2 that you underwrite on a loan. And I was not
3 familiar with the underwriting community at all.

4 And the only contact I ever had was with
5 Arkansas Housing, and as I said, the earlier issues
6 we used Stephens, Inc. and T.J. Raney and E.F. Hutton
7 and I think Merrill Lynch, so I don't think I even
8 knew who they were maybe until, you know --

9 Q They were hired?

10 A Nine months or a year before they were
11 hired I might have heard the name, but I had no
12 knowledge or contact with any of them.

13 Q There was a meeting of the board, special
14 board of directors meeting on January 21, 1983, which
15 I believe was the meeting just previous to the
16 February 17 meeting.

17 A Yes.

18 Q And you're listed as being in attendance at
19 that meeting. On the last page of that there's a
20 reference that says "Mr. Stout told the board that he
21 and Mr. Hardwicke were meeting with the governor,
22 Bill Clinton, today at 5:00 p.m. to discuss some of

94

1 these issues."

2 A What issues?

3 Q Let me give you the part before that.

4 A Read me the whole thing, please, what
5 you're looking at.

6 Q I didn't mean to do that to you, excuse
7 me. The paragraph before that reads "Chairman Stout
8 then read the second resolution declaring intention
9 to conduct FSLIC, FDIC, economic, health care and
10 agricultural financing programs. Called for
11 questions. Mrs. Betty Walker asked what kind of
12 implementation this would be. Chairman Stout replied
13 that the last legislature passed a bill to provide
14 tax-free bonds to finance agricultural projects,
15 which might be for farm equipment, real estate,
16 et cetera. Mr. Stout said that it was his
17 understanding that the intent of Governor Bill
18 Clinton was to incorporate the agri bill in with us
19 and let this agency do agri bond financing and also
20 some health care financing.

21 "Mr. Mort Hardwicke added that the agency
22 would also do industrial development bonds for small

1 businesses. Mr. Stout told the board that he and
2 Mr. Hardwicke were meeting with the governor, Bill
3 Clinton, today at 5:00 p.m. to discuss some of these
4 issues."

5 Do you recall that being mentioned in the
6 meeting?

7 A Yeah, I do now. You have to understand
8 that we were only a housing agency from 1978 until
9 1983 and there had been discussion -- I guess I
10 didn't know that the legislature approved us being
11 able to do this. If I knew it, I had forgotten it.
12 But I know that we discussed how to assist -- you
13 know, this is an agricultural state. All the rural
14 areas here are agri, and at that time more so than
15 even now.

16 So I know that people come to us at the
17 agency lots of times suggesting that we ought to be
18 able to provide low interest rate funds for this or
19 that or something else, but up to that point, we were
20 just housing, nothing else, single family,
21 multifamily, low income, moderate income housing,
22 that's it.

1 So I do recall this being discussed on
2 several occasions. I don't have any reason to think
3 it wasn't discussed on January 24, but --

4 Q 21.

5 A Again, 13 years ago I can't say for sure,
6 but if it's in the minutes and I'm in there, I heard
7 it.

8 Q Well, do you recall Mr. Stout saying that
9 he and Mr. Hardwicke were going to meet with the
10 governor that day at 5:00?

11 A I don't recall that, but if it's in the
12 minutes, he said it.

13 Q Do you recall whether at the next meeting,
14 on February 17, Mr. Hardwicke and Mr. Stout related
15 to you that they had met with the governor on the
16 21st?

17 A Michael, I don't recall that but they very
18 possibly could. You have to keep in mind that
19 January 24 is the first month after Bill Clinton's
20 re-election. And as I said, Bob Nash was economic
21 development adviser, and they were trying really hard
22 to try and develop the economy of Arkansas. The

1 interest rates were high, we had a lot of
2 unemployment at that period of time, '83, so that
3 issue was on everybody's mind in the whole state, is
4 how do we develop the economy of Arkansas, which was
5 mostly agriculture. So I don't have any reason to
6 believe that this didn't happen.

7 Q So when Lasater & Company was chosen for
8 that refinancing, or Collins, Locke & Lasater for the
9 refinancing, do you recall whether they submitted a
10 proposal or how that worked?

11 A I don't recall but I would be really
12 surprised if they didn't submit a proposal. I don't
13 think we ever hired anybody without a proposal.

14 Q In Mr. Wilburn's letter that I read to you
15 earlier, April 28, one of his concerns was a group
16 had been added without submitting a proposal. Do you
17 recall if that was accurate or not?

18 A I don't think it was accurate.

19 Q Do you think he was mistaken about that?

20 A I don't think that we ever hired any firm
21 without having a proposal, a bid. If we did, I don't
22 know about it. If I had known at the time, if it's

1 proven that we didn't have a bid, if I had known that
2 at the time I would have objected to it. I don't
3 think we ever did that. I don't believe that
4 happened.

5 Q You said earlier that one of the concerns
6 Mr. Crow had expressed to you was that the Collins,
7 Locke & Lasater firm wasn't of, I think you said
8 something similar to not as high quality as Stephens,
9 and then you also said that he had concerns about
10 them being unscrupulous.

11 Did he ever express any concerns about drug
12 use occurring at Collins, Locke & Lasater?

13 A You know, we talked a lot about that that
14 afternoon because I didn't think it was appropriate,
15 and as I said, I don't recall any specific things
16 that Charlie Crow said to me. I mean I can't recall
17 the conversation verbatim, but I know that the
18 indication to me was that, you know, that he didn't
19 think they were a good firm and that he felt that
20 things were going on that he didn't want to be
21 involved in. But I don't know that I can
22 specifically say that he said there was any drug

1 stuff going on.

2 Q Had you ever heard that?

3 A Not at that point in time I hadn't. You
4 know, I'm going to -- well, no, the answer is no, at
5 that point in time I knew absolutely nothing about
6 Collins, Locke & Lasater. I didn't know any of this
7 stuff.

8 But you've got to know that it's hard to
9 answer these questions sometimes now because I read
10 the Arkansas Gazette and the Arkansas
11 Democrat-Gazette now every day, and I always have. A
12 year or two years or something after the time we're
13 talking about, you know that there was a big -- stuff
14 going on about drugs and that kind of stuff with
15 Lasater, and you know that Dan Lasater was convicted
16 and served time in a federal penitentiary. You know
17 all of that probably. I know it through the
18 newspaper but not -- I didn't know any of this stuff
19 then.

20 Q That's what I was trying to get at, whether
21 you knew about it back then.

22 A No, I had no idea. I'm a pretty naive

100

1 person, I don't know anything about drugs or anybody
2 dealing with them or anybody doing them, and I didn't
3 back then for sure. It never came to my attention at
4 all.

5 Q Do you know if it ever came to the
6 attention of any of the board members?

7 A Not that I'm aware of or I think they would
8 have mentioned it to me. I was shocked when I read
9 it in the paper a few years later when all of it was
10 going on. I didn't know anything about it, but
11 that's where I got my information, nowhere else, just
12 the newspaper.

13 Q In later issues, if Collins, Locke &
14 Lasater or Lasater & Company had been included as one
15 of the underwriters in the group and Stephens, Inc.
16 had been included in the group as well -- actually
17 I'm going to withdraw that.

18 I don't think I have any further
19 questions.

20 MR. FEUER: Neither do I. Thank you very
21 much, Ms. Chandler.

22 MR. TURBEVILLE: She would like a copy of

1 this deposition and a copy of these minutes that have
2 been read. I guess we could attach them to the
3 deposition or however you want to do that, but she
4 has none of this and she's being told that she may or
5 may not be called to testify, you know, at the Senate
6 Committee or something, and she would like a copy of
7 this.

8 MR. O'CALLAGHAN: We can send her a copy of
9 the deposition to make changes on. There's a
10 confidentiality procedure we have with the committee
11 which we'll send along with the deposition.

12 MR. TURBEVILLE: Okay.

13 MR. O'CALLAGHAN: With respect to the
14 documents, I'll have to get back with you; I believe
15 we're restricted from providing you with these due to
16 the fact of the confidentiality agreement we have
17 entered into with the different entities who have
18 provided us with the documents, that we're required
19 to keep them here in a secure room with an armed
20 guard in the Senate.

21 THE WITNESS: Excuse me, but the minutes of
22 all of the board meetings of Arkansas Housing is open

1 to the public. Is there any reason why I can't go
2 there and get copies?

3 MR. O'CALLAGHAN: You can go there and get
4 copies, no problem.

5 THE WITNESS: There shouldn't be any
6 confidentiality of any public meetings that happened
7 while I was at Arkansas Housing.

8 MR. O'CALLAGHAN: Yes, ma'am. It's just
9 with regard to documents we have received from
10 people, whether or not it's a newspaper article or a
11 public accounting of board meetings --

12 THE WITNESS: I understand. Do you know at
13 this point in time if I am going to be called to
14 testify?

15 MR. O'CALLAGHAN: I do not. We'll probably
16 know by tomorrow. I mean we will notify you if
17 that's going to happen.

18 THE WITNESS: Michael, tomorrow is Sunday.
19 You've got my fax number. Will you fax and tell me
20 whether I am or not?

21 MR. O'CALLAGHAN: Sure.

22 THE WITNESS: Call me or something so I

1 can -- you know, I work, I need to make arrangements
2 for not being there, whatever day or days that I'm
3 not.

4 MR. O'CALLAGHAN: Yes, ma'am. We will
5 definitely do that.

6 THE WITNESS: Thank you. How are you going
7 to get the copy of the deposition to me? I
8 understand if I am called to testify it will be next
9 Wednesday, so will you fax me a copy or Fed Ex me a
10 copy or what?

11 MR. O'CALLAGHAN: One or the other or
12 both.

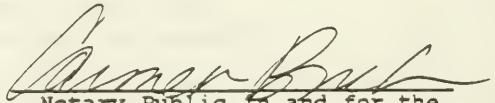
13 (Whereupon, at 12:43 p.m., the deposition
14 was concluded.)

15
16 -----
17 LINDA D. CHANDLER
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19
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21
22

CERTIFICATE OF NOTARY PUBLIC & REPORTER

104

I, CARMEN BUNCH, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires MARCH 14, 1998

**DEPOSITION OF CHARLES D. CAMPBELL
IN RE: S. RES. 120**

MONDAY, APRIL 29, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of CHARLES D. CAMPBELL, called
for examination pursuant to notice of deposition, at 2:05 p.m. in
Room 640-A of the Hart Senate Office Building, before JOANNE
LIVERANI, a Notary Public within and for the District of Colum-
bia, when were present:

H. CHRISTOPHER BARTOLOMUCCI, Esq.
Majority Associate Special Counsel
GLENN F. IVEY, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

ALSO PRESENT: JIM PITTRIZZI

CONTENTS

WITNESS**EXAMINATION**

Charles D. Campbell	
by Mr. Bartolomucci	4
by Mr. Ivey	56
by Mr. Bartolomucci	70

P R O C E E D I N G S

MR. BARTOLOMUCCI: Good morning -- or afternoon, Mr. Campbell. This is a deposition conducted pursuant to Senate Resolution 120. That Resolution establishes a Special Committee under the Banking Committee to conduct an investigation of Whitewater Development Corporation and certain related matters. The deposition is being conducted in advance of public hearings. You may be called to testify at those hearings.

I will be asking you questions under oath. If you don't understand a question, let me know and I will gladly rephrase it, and tell me at any time if you want to take a break.

THE WITNESS: Okay.

MR. BARTOLOMUCCI: Our court reporter will prepare a record of the deposition and we will treat this as confidential until the commencement of any hearings. And as I told you a moment ago, you will get a copy of your deposition prior to any scheduled public hearing date, and we will also make sure you get a copy so you can make any corrections that are

4

necessary.

THE WITNESS: Okay.

MR. BARTOLOMUCCI: You are not being represented by counsel today, but you were aware that you had that right; correct?

THE WITNESS: Yes, sir.

MR. BARTOLOMUCCI: Just so you know, objections to the form of questions we note for the record, and questions may also be objected to on grounds of privilege or scope.

Ultimately, however, the Committee Chairman rules on such objections.

I am going to ask the court reporter to swear you in right now.

Whereupon,

CHARLES D. CAMPBELL

was called as a witness and, having first been duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. BARTOLOMUCCI:

Q Would you please give us your full name for the record.

1 A Charles Daniel Campbell.

2
3

4 Q And, Mr. Campbell, what is your present
5 work address?

6 A Post Office Drawer F, as in Foxtrot,
7 Mountain Home, Arkansas. Zip code 72653.

8 Q If you would, please, give us a brief
9 sketch of your educational background.

10 A Graduated high school at Cash, which is
11 about 20 miles southwest of Jonesboro; attended
12 Arkansas State University, have a bachelor of science
13 in agriculture economics; graduate of the School of
14 Banking of the South graduate school at Louisiana
15 State University, they were short courses. But
16 that's basically the education.

17 Q Tell us please your present occupation.

18 A I am employed by First National Bank &
19 Trust as a vice president in commercial lending.

20 Q And if you would, tell us your association
21 with the Security Bank of Paragould.

22 A I went to work there in January 1979 and

6

1 worked there until February 1987.

2 Q And what positions did you hold during that
3 time period?

4 A Initially, I was in the ag lending
5 department of the bank in 1979. I was in charge of
6 the ag lending in 1980, '81, I believe, and '82. I
7 was, in '83, in charge of the lending function, and I
8 am not sure if '84 or just '85, till I left -- I
9 believe it was '85, first of '85 until I left in '87,
10 I was in the operations department, in charge of the
11 operations division of the bank, and investments of
12 the bank.

13 Q Do you remember what your title was during
14 that second period of time, when you were in the
15 operations department?

16 A I was a vice president all through that
17 period, this whole employment.

18 Q The whole time?

19 A Yes.

20 Q Let me make sure I've got this right. From
21 the time you came on board in 1979 through 1983 or
22 so, you were in ag lending; and thereafter, maybe

1 starting in '84, '85 in the operations department?

2 A Yes, sir.

3 Q Focusing on that second period, when you
4 were in the operations department, can you give us an
5 idea of what your responsibilities were?

6 A Yes. I was -- I had the bookkeeping
7 accounting department under my supervision. I had
8 the accounting division of the bank or the accounting
9 department and the data processing department, and I
10 was in charge of the investment portfolio.

11 Q Who did you report to during that time
12 period?

13 A I reported to the president of the bank.

14 Q And that would have been who?

15 A In 19 -- in that period of time, for a
16 short period of time, it was Frank Oldham; and from
17 '85 until I left, it was Bill Fisher.

18 Q During the time that you were in the
19 operations department, what responsibility did you
20 have with respect to individual loans?

21 A I sat on the -- sat on the ag --
22 agricultural loan approval committee, and continued

1 in an advisory capacity to the individual who was in
2 charge of lending.

3 What happened was that Steve Gramling and I
4 traded places to gain experience in banking. He was
5 in charge of the operations. He moved over to the
6 lending division of the bank. I moved to the
7 operations side of the House.

8 Q So this switch with Mr. Gramling is
9 connected to your going over from ag lending to the
10 operations department?

11 A Yes.

12 Q All right. Do you know Marlon Jackson?

13 A Yes, sir, I do.

14 Q Can you give me a sense of how you know
15 Mr. Jackson?

16 A I first met Marlon when I was a high school
17 student in the late '50s. He was -- I don't know
18 what his status was, he was a student at Arkansas
19 State, I don't know if he was a junior, senior or
20 what. And I knew him when he was a vocational
21 agriculture teacher in Monette, Arkansas. And my
22 next -- I continued to be acquainted with him, but

1 the next contact I had with him was probably in
2 1964.

3 He was working in the -- had formed an
4 agricultural lending department at Citizens Bank in
5 Jonesboro, and I went to work for that bank in March
6 of 1964 and worked for him. He was my immediate
7 supervisor. That continued until probably '68 or
8 '69.

9 He left the bank and went to Paragould,
10 went to the Security Bank. I continued to work for
11 Citizens Bank until 1979. Marlon was president and
12 chairman of the board of Security Bank and continued
13 in that capacity, till he left in, I believe, '83, to
14 become the state banking commissioner.

15 Q And you mentioned that you reported to Bill
16 Fisher at one point during the time you were at
17 Security Bank, so you obviously know Mr. Fisher?

18 A Yes, sir.

19 Q Can you please give us an idea of your
20 relationship with him?

21 A Bill was working at Security Bank when I
22 went to work there. He was in charge of lending. He

10

1 left the bank -- I don't remember exactly when, but
2 he left the bank and went to a bank in Newport, and
3 was gone a couple of years, and came back as the
4 bank's president in, I believe, 1985.

5 Q What about Frank Oldham?

6 A Frank was a professor at Arkansas State,
7 and I had known him -- I don't remember when I first
8 met him, but he was -- he was working with Security
9 Bank in a consulting role, just occasional contact.
10 I had very little contact with him when he was in
11 that capacity.

12 He came to work full-time at the bank in, I
13 believe, 1983, when Mr. Jackson became the banking
14 commissioner.

15 Q During the time you were at Security Bank,
16 or for most of that period, Bill Clinton was the
17 governor; correct?

18 A He was the governor, and then he was not
19 for, I think, four years and then he was re-elected
20 or elected again. I am not sure how his term was, I
21 don't know if he was governor when I went up there or
22 not.

1 Q You have a general memory for most of that
2 time period he was the governor?

3 A Yes, that's correct.

4 Q Do you know Bill or Hillary Clinton
5 personally?

6 A No, sir. I have met them at meetings, but
7 in a crowded room situation. I wouldn't expect
8 either of them to recognize or remember me.

9 Q Do you know Jim or Susan McDougal?

10 A No, sir.

11 Q You have never met either of them?

12 A No, sir.

13 Q Are you aware if anyone at the Security
14 Bank had a relationship with the McDougals?

15 A No, sir, I am not aware of any.

16 Q During that time you were at the Security
17 Bank, were you aware of any business ventures
18 involving both the McDougals and the Clintons?

19 A No, sir.

20 Q So during the time you were at the Security
21 Bank, you didn't know about the Whitewater investment
22 or Whitewater Development Corporation?

12

1 A No, sir. I first learned of Whitewater
2 when I was employed at the Bank of Yellville. I
3 probably heard about it in 1988 or 1989 because it is
4 in the same general area.

5 Q Did you say "Yellville"?

6 A Yes.

7 Q You said that was in 1988 or '89?

8 A I went to work there in '87. And I think
9 the first time I ever heard of Whitewater was
10 probably in '88 or '89.

11 Q What did you hear about it?

12 A I heard that it was a development that the
13 governor was involved in. That's about all I heard
14 at that time.

15 Q Do you remember who you heard about this
16 from?

17 A No, sir.

18 Q Was --

19 A It was just conversations in the area that
20 the governor had an interest in some land on the
21 White River.

22 Q So this wasn't from press accounts, this

1 was from conversations you had?

2 A Yes, sir.

3 Q I want to refer you to the documents that I
4 sent you, the ones marked in green ink with a 1. I
5 marked the lower right-hand corner in green ink.

6 A Okay. Okay, I have it.

7 Q So document 1, for the record, is the
8 Clintons' loan application at the Security Bank of
9 Paragould, dated September 30, 1983. It was a loan
10 for \$20,800.

11 Now, on the second page of that document,
12 there is a box where it says "approved by" and then
13 the initials appear "CDC."

14 A Yes, sir.

15 Q I take it those are your initials?

16 A Yes, sir.

17 Q Do you remember approving the loan?

18 A Yes, sir. I don't remember -- I don't
19 remember approving it, but those are my initials and
20 that is my signature. I made the initials, I signed
21 it. I'm sure I did it.

22 Q What do you remember, if anything, about

14

1 the approval of this loan?

2 A Well, I have granted interviews on two
3 occasions with FBI agents relative to this, and I
4 don't know if you have access to that or not --

5 Q We don't, so we want to get your best
6 recollection as it is today.

7 A Yes.

8 Q And if you can do so without referring to
9 what you told the FBI, we would appreciate that, so
10 we don't step on their toes.

11 A Well --

12 Q Just if you would tell us what your
13 recollection is about the approval of this loan.

14 A I don't remember a whole lot about it. I
15 remembered it as a loan of \$12,000. And they showed
16 me a copy of this same document and it said 20,800
17 loan. It was a one-year loan. It was a loan to Bill
18 Clinton personally and it was unsecured. I remember
19 all of that.

20 Q You said you remembered the loan as being
21 one for \$12,000?

22 A Yes, sir.

1 Q Why did you think it was a loan for
2 \$12,000?

3 A That's just what I remembered. I think I
4 was mistaken. That's the only reason I made
5 reference to the earlier interview. I had told the
6 people that and they gave me a copy of the same
7 document you gave me here. The loan is \$20,800. My
8 memory was off.

9 Q Fair enough.

10 Did you have any continuing responsibility
11 for this loan after you approved it?

12 A Yes. While I was active in the lending
13 department, I was responsible for this loan, yes.

14 Q So does this mean you would have been the
15 person responsible for handling this loan, and
16 handling --

17 A For servicing the loan, yes.

18 Q This is a loan that Governor Clinton took
19 out personally; right?

20 A Yes, it is in the name Bill Clinton.

21 Q And therefore, he was obligated to repay
22 it?

1 A Yes, sir.

2 Q If Bill Clinton was under the impression
3 that some third party was supposed to pay the loan,
4 and the loan wasn't paid by that third party, your
5 bank would go after Bill Clinton and not the third
6 party; right?

7 A Yes, sir.

8 Q I see that, on the third page of the
9 document, it bears Bill Clinton's signature.

10 Do you know if you were present when he
11 signed this?

12 A I would say I was not, because I think all
13 the documents were probably sent to him. He was not
14 in the bank. I did not go to Little Rock.

15 Q So you didn't have any -- you didn't meet
16 with Bill Clinton with respect to this loan?

17 A No, sir.

18 Q Now, the second page of the document
19 indicates that the loan was due on September 30th,
20 1984; or in other words, one year?

21 A Yes, sir.

22 Q Is that remarkable for a loan of this type?

1 A No, sir. Quite common, one year.

2 Q And the fact that the loan was unsecured,
3 would that also be common for a loan of this sort?

4 A Yes, sir. If there was evidence of
5 financial strength to support a loan on an unsecured
6 basis, it would be done.

7 Q Do you have any reason to believe that this
8 loan application was handled unusually?

9 A No, sir. No, sir.

10 Q And so from your perusal of it, you don't
11 find anything remarkable or unusual about it?

12 A No, I do not. Unsecured note for one
13 year.

14 Q All right. Now, the second -- the document
15 that I sent you marked with a 2?

16 A Yes, sir.

17 Q Do you have that? That's the -- for the
18 record, that's the document with the heading
19 "personal financial statement." It is addressed to
20 the Bank of Cherry Valley, and dated April 25th,
21 1983. That's the document you are looking at; right?

22 A Yes, sir.

1 Q Do you recall this being the financial
2 statement that was tendered in connection with this
3 loan?

4 A No, sir. I don't remember this particular
5 financial statement, but, you know, it would have
6 been normal to receive a financial statement with an
7 unsecured loan application.

8 Q In fact, page 2 of the Security Bank loan
9 application, if I can refer back to that, has a box
10 where it says "documents required," and "financial
11 statement" is checked; right? Do you see that?

12 A Yes, sir, I do see that. It is checked.

13 Q Now, do you remember whether it was in
14 your -- whether it was in your discretion to require,
15 or not require, a financial statement to be submitted
16 in connection with this loan?

17 A I don't remember the exact parameters of
18 our loan policy at that time. But loans over a
19 certain amount would have required a financial
20 statement if the loan was unsecured; and over another
21 larger amount, it would have required a financial
22 statement whether it was secured or unsecured.

1 Q So do you think this loan, the size of it
2 being a little over \$20,000, would have required,
3 under bank policy, a financial statement?

4 A Yes, sir.

5 Q Now, do you have any idea why the Clintons
6 submitted a financial statement addressed to the Bank
7 of Cherry Valley?

8 A I did not know, but you know, in looking at
9 the document, I would say that this is a statement
10 that they had had in their possession and prepared
11 it. It was available. It was barely current. At
12 that time I guess it was six months old. Looks like
13 it was prepared April the 25th of 1983.

14 Q So there would have been no problem with
15 them tendering an April financial statement in
16 connection with a loan made in September?

17 A No, sir.

18 Q And it didn't matter that it was on a
19 Cherry Valley form as oppose to a Security Bank form?

20 A No, sir.

21 Q Did you have -- do you recall any
22 discussions that you had with anyone about this

20

1 financial statement?

2 A No, sir. I'm not aware of any financial --
3 I am not aware of any discussions I had about the
4 financial statement.

5 Q Now, the Clintons were under a legal
6 obligation to be truthful with respect to the
7 information they provided in this loan; right?

8 A Yes, sir.

9 Q As a banker, you would take that obligation
10 very seriously?

11 A Yes, sir.

12 Q And am I right that it would, in fact, be a
13 crime to deliberately provide false information on
14 the form?

15 A Yes.

16 Q The second page of the form, down near the
17 bottom, lists under the real estate section, a half
18 interest in 200 acres in Marion, valued at \$200,000.

19 Do you know anything about that?

20 A No, sir. The copy I have -- I assume you
21 are right, it says "half interest" -- but my copy
22 does not cover that. It says "interest, Marion," and

1 then on the next line it says "city," and then it
2 says "Arkansas, 200 acres."

3 Q I think the half must have just been cut
4 off the edge of your copy. But you don't know
5 anything about that entry; you don't have anything to
6 share with us about that?

7 A No, sir. You know, probably -- the only
8 thing I could do with that entry would be guessing,
9 and it is probably supposed to be Marion County.
10 There is a Marion, Arkansas, that's a city, but I
11 don't know anything about 200 acres in Marion,
12 Arkansas.

13 Q Now, I would like to refer you to the
14 documents I sent to you numbered 3 and 4.

15 A Okay.

16 Q Document 3 is a letter, apparently written
17 and signed by you, dated September 30, 1983, and it
18 is addressed to Governor Clinton. We are looking at
19 the same document?

20 A Yes, sir.

21 Q And it states, "Enclosed is a copy of our
22 check number 12677 in the amount of \$20,800

22

1 representing the proceeds of your note. The original
2 was mailed to Madison Bank & Trust, Kingston,
3 Arkansas."

4 Do you remember writing this letter?

5 A No, sir. That is in fact the facsimile of
6 my signature, but it is a signature stamp which I use
7 on a regular basis on routine correspondence. And I
8 can tell you for sure that that's a stamp because I
9 still have the stamp, and I looked at the documents
10 when they came in this morning and I reviewed them a
11 while ago when I was waiting for your call, and
12 compared the stamp with this. And I feel certain
13 this was a stamp.

14 Q Would you have stamped that document
15 yourself, or did your secretary or someone have
16 access to the stamp?

17 A My secretary would have stamped it. If I
18 were there, I could have signed it.

19 MR. IVEY: Could you repeat the answer.

20 THE WITNESS: No, I didn't stamp it
21 myself. If I had been there, I would have signed
22 it. I am sure my secretary used the stamp.

1 BY MR. BARTOLOMUCCI:

2 Q Do you have any reason to believe you
3 didn't write this letter? Is it possible your
4 secretary wrote it and stamped it and sent it out
5 without your awareness?

6 A In all likelihood, I -- and there again, I
7 do not remember, but in all likelihood, I told her
8 where to send the check and to put a cover letter
9 with it, explaining what it was. And she wrote this
10 and sent it out at my instruction.

11 Q Now, how would you have known to send the
12 original check to Madison Bank & Trust?

13 A I don't know. I am assuming I was told,
14 but I have nothing here in the documentation that
15 covers that question, and I do not remember. I don't
16 remember what would have made me send it that way. I
17 am sure I was told or asked to do it that way.

18 Q Document 4 is a copy of the check dated
19 9/30/83 for \$20,800 a Security Bank check payable to
20 Madison Bank & Trust. That looks like a copy of the
21 check you had mailed out?

22 A Yes, sir. The check number is mine.

1 Q So do you have any independent
2 recollection, that is to say independent from these
3 documents, about the purpose of the Clinton's loan?

4 A No, sir. I do not.

5 Q You didn't have any awareness about the --
6 well, strike that.

7 Were you aware that in 1983, Madison Bank
8 had come under scrutiny from bank regulators?

9 A No, sir.

10 Q During 1983, the year that you would have
11 handled this loan application, did you have any
12 awareness that Madison Bank & Trust was coming under
13 scrutiny for excessive out-of-territory lending?

14 A No, sir. I did not then, nor do I now,
15 know where Madison Bank & Trust is. The letter says
16 it is in Kingston, but I don't know where Kingston
17 is, either. I don't know anything about Madison,
18 Madison Bank.

19 Q Now, it is our understanding that the
20 Clintons borrowed the money from Security Bank to pay
21 off a loan at Madison Bank & Trust. It is also our
22 understanding that they borrowed less than the full

1 amount of their outstanding debt at Madison Bank.

2 I take it you don't have any idea why they
3 borrowed less than the full amount?

4 A No, sir.

5 MR. IVEY: Do you know what the -- never
6 mind. I will wait until it is my turn.

7 BY MR. BARTOLOMUCCI:

8 Q Mr. Campbell, I want to draw your attention
9 to the fifth document I provided to you, which bears
10 Bates number DKRT 400142. This is a notice of a past
11 due loan payment, dated October 5th, 1984. Do you
12 have that document?

13 A Yes, number 5.

14 Q Number 5?

15 A Yes, sir.

16 Q Then there is a similar document which I
17 gave you numbered 6, which is a past due loan payment
18 notice, dated October 15th, 1984 --

19 A Yes, sir.

20 Q -- and that one is Bates numbered DKRT
21 73388.

22 Would you have been aware about the fact

1 that the Clintons loan was past due?

2 A I would have been aware -- I am not sure if
3 I was aware when it became past due. I was aware
4 that it was past due. When that -- I was aware it
5 was past due, I guess in 1984, yes. I don't know
6 exactly when I became aware. But, yes, I was aware
7 it was past due in '84.

8 Q Do you remember anything more than that
9 simply the loan was past due in 1984?

10 A Well, let me -- with reference to these
11 documents, I would not have been aware of the
12 documents you are talking about. They went out
13 automatically, produced by the computer application,
14 went out in the mail automatically.

15 I was aware that the note was past due
16 because the extension agreement was not returned, to
17 extend the note. And that's when I became aware.

18 Q Now, what would have been the procedure
19 with respect to past due loans? Do you know when a
20 notice would have gone out to the borrower about a
21 loan being past due?

22 A On a single pay note of this type, I don't

1 believe there would have been a "will be due" notice,
2 but it would have gone out after the due date. One
3 of these -- document number 5 is dated October the
4 5th, which would have been five days after the due
5 date. And then, 10 days later, document 6 is dated
6 October the 15th.

7 Q Now, do you remember if you took any action
8 after learning that the note was past due?

9 A Yes, sir. I don't remember when, but yes,
10 sir. When the -- somebody paid the interest, you
11 know, the note was -- the interest was paid on this
12 note, and an extension agreement was generated. Now,
13 I do not remember actually doing that.

14 I do remember that the extension agreement
15 did not come back in the mail, and the transaction
16 was not completed. And at that time, I did get
17 involved.

18 Q So you were aware that the extension
19 agreement had not been completed by September 30,
20 1984?

21 A Had not been returned, right.

22 Q Let's add that document to the mix. It is

1 the document I numbered 7.

2 A All right.

3 Q The bottom half of the document shows an
4 extension agreement that is a Security Bank form, and
5 it says number 4428 in the left corner. Do you see
6 that one?

7 A Yes, sir. Yes, sir.

8 Q And this reflects an extension for one
9 year from September 30th, 1984 to September 30th,
10 1985?

11 A Yes, sir.

12 Q And it reflects that the amount extended
13 was 18,800 so \$2000 of principal had been paid off on
14 it; am I right?

15 A Yes, sir.

16 Q Now, the date on the document appears to
17 be -- well, the date as listed is 9/30/84. Based
18 upon these past due notices that we've looked at, is
19 it safe to say that that agreement was not completed
20 by September of '84?

21 A Right. That date would relate to the prime
22 maturity.

1 Q Well, I am looking at the line where it
2 says just simply date, just to the left of the --

3 A Yes, sir.

4 Q -- approval signature?

5 A Yes, sir.

6 Q Now, I take it that should have referred to
7 the date that the form was completed; right?

8 A I think it would refer to the date from the
9 maturity, but I don't -- there is no date on here
10 that actually relates to the date of preparation.

11 Q Do you see the notation --

12 A It may well be the date of preparation, but
13 I don't think it is necessarily the date of
14 preparation.

15 Q Do you see the notation at the top where it
16 says "loaded 12/27/84"?

17 A Yes, sir.

18 Q Do you know what that refers to?

19 A I think that is an entry from the note
20 clerk when it was loaded into the computer
21 application for loans.

22 Q So this information was inputted --

1 A Input into the system, yes, sir.

2 Q And that's December 27th, 1984, or almost
3 three months after the original loan was due?

4 A Yes, sir.

5 Q Would that have been inputted soon after
6 the form was completed?

7 A It would have been input soon after the
8 form was received back by the bank.

9 Q So then is it safe to say the bank received
10 the completed form some time in late December of '84?

11 A Yes, sir, I think that is a fair statement.

12 Q Given that the original loan hadn't matured
13 at the end of September of that year, we've got a
14 three-month gap there. I mean, would any problem
15 have been created by that?

16 A Yes, sir, it is a past due note. Yes, sir,
17 that would create a problem.

18 Q What would normally happen when the loan
19 was past due for almost three months?

20 A The loan officer would contact the maker of
21 the note and find out why it was passed through.

22 Q Would that have been your responsibility?

1 A Yes, sir.

2 Q And you've testified here that you remember
3 becoming aware that the loan was past due?

4 A Yes, sir.

5 Q Do you remember what steps you took to
6 bring the loan into good order?

7 A I called -- I do remember this on the
8 extension agreement. I don't remember if I called
9 and said the note is past due and do something about
10 this, or if I called tracing the extension agreement
11 itself, but I talked with somebody in the governor's
12 office, and I really don't remember a name. I can't
13 be certain who I talked to. But I asked them to
14 assist Mimi in this, to bring it to the governor's
15 attention.

16 Q You don't remember who you talked to in the
17 governor's office?

18 A No, sir, I could speculate but I could
19 not -- I couldn't tell you for sure that I know who I
20 talked to.

21 Q I take it you did not talk to the governor?

22 A No, I did not talk to the governor.

1 Q Do you know what happened after you
2 mentioned this to someone in the governor's office?

3 A What I remember is that somebody called me
4 and said that this extension agreement had been
5 misplaced, and that it would be forthcoming, and it
6 was sent in and then run. I do not remember getting
7 it. I don't think I actually got it back. This was
8 after I had taken on some operational
9 responsibilities.

10 MR. BARTOLOMUCCI: Off the record for a
11 second.

12 (Discussion off the record.)

13 MR. BARTOLOMUCCI: Back on the record.

14 BY MR. BARTOLOMUCCI:

15 Q Do you recall anything else about this
16 extension agreement or anything about the fact that
17 the loan was past due in late '84?

18 A No, sir. I remember it was past due. I do
19 remember calling the governor's office, and I -- and
20 somebody called me. I remember somebody getting back
21 to me, saying it had been misplaced and was being
22 taken care of. And that's all I remember about it.

1 It was, in fact, taken care of, and got off
2 the past due list.

3 Q Now, the eighth document I sent you is a
4 handwritten letter dated October 22nd, 1984, Bates
5 number DKRT 100735. It is a letter that begins "Dear
6 Jim," do you see that one?

7 A Yes, sir.

8 Q You would have no reason to know this: The
9 author of this letter is Mrs. Clinton.

10 I want to direct your attention to the
11 second paragraph, where it says "I asked Security
12 Bank to extend the note, but apparently my written
13 request fell on deaf ears."

14 Do you have any idea what that's a
15 reference to?

16 A No, sir. I don't know anything -- I
17 suspect it was an extension agreement that was
18 mislaid, judging from the -- it says October 22nd at
19 the top of this letter.

20 Q Right.

21 A Do we know that this is October 22nd,
22 1984?

1 Q Well, it should be 1984 in the upper
2 right-hand part of the document.

3 A Is that a part of the document?

4 Q I believe it is.

5 A Okay. The timing would be right, but I do
6 not know that that's what the reference is.

7 Q It would seem like the extension -- the '84
8 extension had not gone through by October 22nd;
9 right?

10 A Right.

11 Q Since the loaded date is late December of
12 '84?

13 A December.

14 Q The loaded date was December 27th.

15 A Yes, sir.

16 Q So you don't remember a written request
17 coming in to Security Bank from Mrs. Clinton?

18 A No, sir, I do not.

19 Q This is a letter addressed to Jim McDougal,
20 and the last thing Mrs. Clinton writes is "Will you
21 please ask someone to take care of this for us?" I
22 take it you didn't have any discussions with

1 Mr. McDougal about the extension?

2 A No, sir. I don't remember ever meeting or
3 ever talking to Mr. McDougal.

4 Q And I don't have any reason to believe that
5 you did, so your categorical memory is that you have
6 never talked to Mr. McDougal?

7 A Right.

8 Q Let's go to the document I numbered 9,
9 which is the letter to you from Marlon Jackson, dated
10 November 1, 1985. It is DKSJ 001244. Do you have
11 that letter, Mr. Campbell?

12 A Yes, I do.

13 Q Do you remember receiving this?

14 A No, sir.

15 Q Do you have any reason to doubt that you
16 did receive it?

17 A No, sir.

18 Q You weren't overseas in November of '85 or
19 anything like that?

20 A No, sir. I was in -- I was in the
21 operations side of the house, but no, I was not
22 overseas.

36

1 Q Now, the first thing the letter says is "I
2 am enclosing the extension agreement which governor
3 Bill Clinton signed yesterday." Do you remember
4 Marlon Jackson forwarding to you an extension
5 agreement related to the governor's loan?

6 A No, sir. Not to say that he didn't, but I
7 don't remember it.

8 Q Down below in the fourth paragraph where it
9 says, "After making the appropriate approval of the
10 extension agreement, please return the appropriate
11 copy to me and I will personally deliver it to
12 Governor Clinton." Do you have any memory at all of
13 that?

14 A No, sir. No, sir, I do not.

15 Q So you don't remember there being a time
16 when Jackson asked to you approve an extension on the
17 Clinton loan?

18 A No, sir, but this extension apparently had
19 been sent to the governor before this.

20 Is this the extension that we just looked
21 at, or is this the extension that was on the page
22 that we just looked at?

1 Q I don't believe so because the date on this
2 is November of 1985, so I think we have skipped ahead
3 a year.

4 A Okay. This letter is dated November 1st,
5 '85.

6 Q Right, and the extension agreement we
7 looked at before was dated 1984, was loaded December
8 27th, '84?

9 A But there was one at the top of that page,
10 says "loaded November 13th, 1985."

11 Q Okay, you are actually referring to a
12 different extension agreement. On the document that
13 I gave you numbered 7 --

14 A Yes, sir.

15 Q -- there actually --

16 A There are two extension --

17 Q There are two extension agreements, right.

18 So I assume that, yes, this letter is in
19 connection with the extension agreement that appears
20 on the top of page which is to say the one that has
21 number 5116 on it?

22 A Yes, sir.

1 Q And says loaded 11/13/85?

2 A Yes, sir. Would you notice also that says
3 JG?

4 Q I was going to ask you --

5 A I think that's JG.

6 Q Who is JG?

7 A Well, I don't know who JG is. I would
8 think maybe Steve Gramling, but it looks like a J to
9 me, it doesn't look like an S. But I was looking at
10 it and thinking Steve Gramling. It looks like JG to
11 me; I don't know a JG.

12 Q I thought that first character was a J
13 also. So you don't know who a JG would be?

14 A No, sir.

15 Q Referring to that same document, there is a
16 box up in the corner that says "dealer"?

17 A It is not -- that box was impossible to
18 use. The way that is written up there, I would say
19 the top -- the top initial is an officer, the bottom
20 initial is the note clerk that actually prepared the
21 agreement.

22 Q So SG would be Steve Gramling?

- 1 A That would be my assumption.
2 Q Now, again, this document says loaded
3 10/11/85, so is it safe to assume it was probably
4 completed right about that date?
5 A Are you looking at the top extension
6 agreement, sir?
7 Q I am.
8 A Mine says loaded "11/13/85."
9 Q I misspoke. Yes, I am looking at the
10 11/13/85 notation.
11 A Okay. All right.
12 Q So then the date lower down, where it says
13 10/11/85, do you see where it says that to the left
14 of the approval, "lien"?
15 A Yes, sir. Yes, sir.
16 Q If that's supposed to represent the date on
17 which the form was completed, that would be
18 inaccurate?
19 A To my way of thinking, it should have said
20 9/30/85 there, but it may be the date that it was
21 prepared. I am not certain on that.
22 Q But it is safe to say the form was probably
-

- 1 completed and filed sometime in mid-November of 1985?
2 A It was received by the bank, loaded on to
3 the system. I feel certain that that was on the 13th
4 of November, as on this document.
5 Q That would be consistent with the letter
6 you received from Marlon Jackson dated November 1st,
7 1985?
8 A Yes, sir.
9 MR. BARTOLOMUCCI: We will pause for just
10 one second so the court reporter can load up some new
11 tape.
12 THE WITNESS: Okay.
13 (Discussion off the record.)
14 BY MR. BARTOLOMUCCI:
15 Q We were talking about the 1985 extension
16 agreement, and the letter that --
17 A Excuse me, could you wait just a moment,
18 please. Let me get my glasses.
19 Q Sure.
20 (Pause.)
21 Now, as I read this November 1, 1985 letter
22 that Marlon Jackson wrote to you, it looks as though

1 he was asking or telling you to approve the extension
2 agreement. Is that how you interpret the letter?

3 A I am reading it.

4 No, sir, I would not, because the
5 extension -- he has the extension agreement so I
6 think it had already been prepared and in doing so,
7 and sending it to the governor, it was approved.
8 Whether it was, you know, initialed, I am not sure,
9 but I think the preparation in sending it to the
10 customer implied approval of the transaction.

11 Q What do you make of the fourth paragraph
12 where it says "After making appropriate approval of
13 the extension agreement, then return it to me"?

14 A I read exactly what it says, just the way
15 you do, but I think that the approval or the
16 extension arrangements were made before the extension
17 agreement was sent out.

18 Q So you are guessing that some arrangements
19 for an extension had already been made, but it wasn't
20 formally approved?

21 A Well, I would assume that since he starts
22 off by saying "I am enclosing extension agreement," I

1 assume it had been prepared and sent to the governor,
2 and the governor had already signed it. He says "the
3 governor had signed it yesterday."

4 Q But you don't have any specific memory of
5 receiving this letter; is that right?

6 A No, sir, I do not.

7 Q And you don't have any memory of dealing
8 with Marlon Jackson about a loan extension?

9 A No, sir.

10 Q Did anything in the letter strike you as
11 unusual?

12 A I really --

13 Q Did you think it was unusual that the bank
14 commissioner was involving himself in a private loan
15 the governor had at a bank?

16 A If he did, yes. If -- you know, the
17 governor's office sent it over to him or something --
18 I don't know how he got this.

19 Q It seems apparent from the letter that
20 Marlon Jackson was handling the extension agreement;
21 right?

22 A Well, I think the extension agreement

1 originated at the bank. I don't know how he got it.

2 Q Well, why would Marlon Jackson have been
3 involved at all?

4 A I don't know.

5 Q I mean, the bank commissioner is not the
6 governor's private banker, is he?

7 A Normally not.

8 Q And Marlon Jackson no longer had any formal
9 position at the Security Bank of Paragould, did he?

10 A No, sir.

11 Q So do you have any concern about whether it
12 was proper for the bank commissioner to be
13 interceding in connection with a private loan that
14 the governor had?

15 A No, sir, I do not, primarily because I
16 don't know if he was. I can do like you, I guess you
17 are doing, unless you know more about this than I,
18 speculating that he was handling the governor's
19 banking business.

20 But I really don't know how he came to have
21 this or how he got involved in it. I am just reading
22 the letter, as far as I know, for the first time

1 today.

2 Q It appears to be true from the letter he
3 obtained the extension agreement from the governor,
4 sent it to you, and he was asking you to return it
5 and he would give it to the governor?

6 A Yes, sir.

7 Q That's some involvement there; isn't it?

8 A Sure.

9 Q That wouldn't be part of the bank
10 commissioner's state duties, would it?

11 A Well, I am not going to speculate on the
12 banking commissioner's duties or anything like that.
13 I have never been the banking commissioner. I don't
14 know. Yes, it would be unusual, to say the least,
15 that the banking commissioner would be the governor's
16 private banker. I'm not sure that's the case. But
17 you've asked me would that be unusual and the answer
18 I have given is yes, it would be.

19 Q You can't think of any other occasions
20 during his tenure as bank commissioner, Marlon
21 Jackson involved himself in a loan at the Security
22 Bank?

1 A I cannot.

2 Q What was your answer?

3 A No, sir, I cannot.

4 Q Now, the letter references that, according
5 to Jim McDougal, he was going to -- McDougal was
6 going to forward a check for \$2322 to represent
7 interest due and he was also going to make a \$5000
8 principal reduction. Do you see that part of the
9 letter, paragraphs 2 and 3?

10 A Oh, yes, yes, I see it. I wasn't seeing
11 the interest numbers initially, but yes, I see that.

12 Q I just wanted to use that as a springboard
13 to look at the next two documents which are numbered
14 10 and 11.

15 A Right.

16 Q The first is a letter from Jim McDougal
17 addressed to you, dated November 8, 1985; and
18 document 11 is a check from Whitewater Development
19 Corporation, Inc., dated November 7, 1985, payable to
20 Security Bank; that is a check in the amount of
21 \$7322.42.

22 Do you see those documents?

1 A Yes.

2 Q Do you remember receiving this letter or
3 this check from Mr. McDougal?

4 A I don't think I have ever seen either of
5 these documents before today.

6 Q Do you have any -- so you don't remember
7 getting a letter from Jim McDougal?

8 A No, sir.

9 Q Would it be normal for you to receive a
10 letter like this which enclosed a payment on a loan,
11 or would that have been intercepted by someone also
12 at the bank and handled?

13 A The mail was normally worked by two people,
14 and mail that had checks would normally have gone to
15 the note department.

16 Q So do you think it is possible this letter
17 wouldn't have made its way to you, or do you think it
18 probably would have?

19 A In November of '85, I don't think it would
20 have. I was still getting mail relative to the loans
21 because I had been in the loan department. And this
22 were still loans there that I had originated and

1 serviced, but I was no longer in the lending area
2 today.

3 Q Now, you said you were in ag lending or
4 agricultural lending; is that right?

5 A Yes, sir.

6 Q What would constitute an agricultural loan?

7 A Let me clarify what I had said. When I
8 went to the bank in '79, I was in agricultural
9 lending. Bill Fisher was in charge of the total
10 lending function at the bank at that time. And Bill
11 left the bank -- and I don't remember if it was --
12 you know, I don't remember the date, but it was '81
13 or '82. When he left the bank, then I was in charge
14 of the lending function of the bank which included
15 agricultural lending, from that time until I moved
16 over to the operations side of the house.

17 Now, back to your question, the
18 agricultural loans that we dealt in, or that we
19 originated, were basically crop production loans,
20 short-term loans that originated from the middle of
21 January to the middle of March, to be paid from the
22 middle of October to the middle of December. We had

48

1 a few intermediate-term loans secured by farming
2 equipment, and a very few longer-term loans secured
3 by farm land.

4 But, far and away, most of the lending
5 activity was production loans.

6 Q I guess I am wondering why you would have
7 had any involvement in this loan then.

8 A Because at the time this loan was made, I
9 was in charge of the lending function of the bank,
10 not just the agricultural lending. When Bill Fisher
11 left, I took his position as the person responsible
12 for the lending activities of the bank.

13 Q Thank you for that clarification.

14 Returning to the two documents at hand, the
15 letter and the check, you don't have any memory of
16 seeing the check before?

17 A No, sir. No, sir, I do not.

18 Q Do you remember whether you or someone else
19 at the bank made a demand for a payment on principal
20 about this time?

21 A I did not.

22 Q Do you have any memory about there being a

1 need for a principal payment to be made?

2 A No, sir. It is normal to require, you
3 know, principal reduction at the time the loan
4 matures. If it is not going to be paid in full, it
5 can be at least partially paid.

6 Q Now, our records indicate that, from the
7 time the loan was taken out on September 30th, 1983
8 until November of 1985, so we are talking a two-year
9 period, there had been one principal payment in the
10 amount of \$2000 in that period on this loan for
11 better than \$20,000.

12 Is that how you would ideally like to see a
13 loan performed?

14 A Well, a hundred percent ideal would have
15 been payment in full. Many loans do not pay --
16 single payment notes are notorious for not paying in
17 full on the due date than monthly pay notes.

18 You are talking about the time frame, from
19 the time it was made till November of 1985? Is that
20 the time frame we are talking about?

21 Q Yes. You see the check --

22 A There was more than that, wasn't there? If

50

1 they paid 5000 on it in '85 and \$2000 in '84, the
2 note should have been down to \$13,000 by that time.

3 Q No, that's right. I meant prior to the
4 receipt of that check, which included a \$5000
5 principal payment.

6 A Okay. All right, I am with you.

7 Q So we are talking until that happened,
8 basically the loan had been around for two years?

9 A Yes, okay.

10 Q And \$2000 had been paid in terms of
11 principal?

12 A When you say it like that, it sounds like
13 it had been there a long time with very little
14 reduction. But remember, it was a single pay note.
15 It had two maturities; one in September of '84 and
16 another in September of '85. And it is quite common
17 that nothing be paid on note until it is due; this
18 note did not require any principal reduction in the
19 interim.

20 Q Well, apparently September of 1985 came and
21 went, and there was no payment?

22 A Right.

1 Q There was a payment in November of '85?

2 A Right.

3 Q I guess I am trying to jog from your memory
4 whether following or in connection with the extension
5 Security Bank made some demand for a principal
6 payment?

7 A Oh, I am not sure. I am sure that I
8 remembered, you know, doing collection activity on
9 the note when it came due in '84. I am pretty sure I
10 did nothing in '85. Now, whether another officer in
11 the bank worked it as a collection item, I don't
12 know.

13 Q Let's look at the 12th document I sent
14 you. It is another notice of payment due.

15 A Is it important I keep these in order? Are
16 we going to go back and look at them again?

17 Q I don't think we are.

18 A I am trying to keep them in order. Number
19 12, I have it.

20 Q It is a notice of payment due dated
21 November 20, 1986. It reflects that the balance on
22 the note is 13,800; and that the due date was

1 9/30/86?

2 A Yes, sir.

3 Q And just for the record, it has Bates
4 number DKRT 700302.

5 Do you have any memory of the note being
6 past due in 1986?

7 A No, sir.

8 MR. IVEY: I'm sorry, what was the date?

9 MR. BARTOLOMUCCI: November 20, 1986.

10 BY MR. BARTOLOMUCCI:

11 Q So, nothing reflected on this past due
12 notice triggers your memory with respect to what was
13 happening with the note?

14 A No, sir. No, sir, it doesn't.

15 Q Would you have been concerned at that
16 point, if you were aware in November of 1986 that the
17 note was due back on September 30th?

18 A Yes, sir.

19 Q So is it likely some action was taken?

20 A I think it is most likely that this was
21 being handled by some other officer of the bank,
22 because I have no recollection of it. And you are

1 right, had I been in charge of this note, I would
2 have been aware and I would have been concerned. I
3 would not have been concerned about whether or not it
4 would be paid; I would just be concerned that it
5 wasn't proper to leave it past due.

6 Q Now, we know that there was the \$5000
7 principal payment in November of '85, and that there
8 had been a \$2000 principal payment before that --

9 A Okay.

10 Q -- which would -- that \$7000 would have
11 brought the principal and the note down to 13,800,
12 which is the same sum reflected on this document;
13 right?

14 A Yes, sir.

15 Q So it is safe to conclude from that that no
16 principal payments were made between the time of that
17 November '85 check and the time that this notice went
18 out?

19 A That's correct.

20 Q So for a year there were no principal
21 payments?

22 A Right.

54

1 Q I am just going to go quickly through the
2 documents that remain.

3 A Okay.

4 Q You left the bank in 1987; is that right?

5 A Yes, sir.

6 Q Do you remember what time you left -- did
7 you say February?

8 A Around the 1st of February, yes, sir.

9 Q Do you see document 13?

10 A Yes, sir.

11 Q Well, let's look at 14 at the same time.
12 These appear to be the papers for another
13 one-year extension.

14 MR. IVEY: Do they have Bates stamp
15 numbers?

16 MR. BARTOLOMUCCI: One of them does; one of
17 them is DKS N 010517.

18 MR. IVEY: That is Exhibit 13 or 14?

19 MR. BARTOLOMUCCI: That is 14. And I will
20 just describe these for the record. They are
21 Security Bank documents. They say promissory note.
22 The first one is dated January 29, 1987; the second

1 one is undated. And they appear to extend the
2 Clinton loan for a year from September 30th 1986 to
3 September 30th, 1987.

4 BY MR. BARTOLOMUCCI:

5 Q Other than the fact that these documents
6 are not fully completed, is there anything remarkable
7 about them to you?

8 A In looking at these two documents, it looks
9 to me like maybe one was prepared in order for the
10 other one to be typed. One of them is a typed
11 document, looks like the reproduction of the
12 handwritten document. And I say that only because
13 they say the same thing.

14 MR. BARTOLOMUCCI: Now, the other documents
15 I have are subsequent to February of '87. So in the
16 interests of economy, I think I will not ask you
17 anything about them since you weren't at the bank at
18 that time.

19 So I will turn this over for now to my
20 colleagues here, and I may have some follow-up
21 questions after that.

22 But before they begin, did you want to take

1 a break or do you want to keep going?

2 THE WITNESS: I am fine, sir. Thank you.

3 EXAMINATION

4 BY MR. IVEY:

5 Q I appreciate your time, I want to be as
6 brief as possible but I have a few follow-up
7 questions to ask.

8 A Okay.

9 Q One is, with respect to the documents that
10 were sent to you, how many additional documents do
11 you have that we haven't discussed so far?

12 A I don't have any -- you mean in that
13 stack?

14 Q Yes, sir.

15 A Oh, I have numbers 15, 16, 17, 18, 19, and
16 20. I guess I have five; a couple are more than one
17 page.

18 Q Could you tell me what document 15 is?

19 A It's a loan application, Security Bank loan
20 application.

21 Q Does it have a date?

22 A It's dated 3/5/87.

1 Q And is there a number down at the bottom
2 that is stamped on it that would not have been part
3 of the bank stamp?

4 A No, sir.

5 Q No additional numbers or anything that look
6 unusual to you?

7 A Nothing I see, no.

8 Q All right. And what's document 16?

9 A Okay. 16 is a promissory note dated
10 3/5/87, and it has a number at the bottom, DKS
11 004125.

12 Q All right. What about document 17?

13 A That is a personal financial statement
14 dated March 24th, 1987.

15 Q Does it have a stamp number on it?

16 A No, sir, it does not.

17 Q Okay. What about number 18?

18 A That is a letter dated March the 27th,
19 1987, and I see no number on it, either. It says
20 "produced by the RTC to the House Committee on
21 Housing and Financial Services," but I don't see a
22 number.

1 Q Can you tell me who wrote the letter and
2 who it was addressed to?

3 A The letter is addressed to Ms. Hillary
4 Clinton and signed by Marlon Jackson, bank
5 commissioner.

6 Q All right. What about number 19?

7 A Number 19 is an extension agreement dated
8 4/1/88. It has no unusual numbers on it, but it
9 extends a note from 3/5/88 to 3/5/89.

10 Q And what about number 20?

11 A Number 20 is an extension agreement date
12 dated 4/1. I don't see a year. I don't know if it
13 had no year; if it was cut off with the copier. It
14 extended 3/5/88 to 3/5/89. One might believe the
15 same thing I said about the other document a while
16 ago.

17 Q What was that, sir?

18 A Well, document number 19 is handwritten.
19 Document number 20 is typed and it could well be a
20 typed version of document number 19.

21 Q I see.

22 A It seems to have the same information, same

1 dates on it.

2 Q And you received this information by fax or
3 by mail?

4 A I received it Federal Express this morning
5 about 10:30.

6 Q So it was sent yesterday?

7 A I am not sure. Let's see. It was sent
8 27th April at 10:36, which I guess would have been
9 Saturday.

10 MR. BARTOLOMUCCI: Let's go off the record
11 for a second.

12 (Discussion off the record.)

13 MR. IVEY: Let's go back on the record. I
14 appreciate you going through that for me. I had
15 requested a copy of these documents in advance of the
16 deposition, and I assume that there was some
17 logistical issue or problem that prevented that from
18 happening so I wanted to go through just for my
19 benefit to know what documents were there.

20 THE WITNESS: Yes, sir.

21 MR. IVEY: So I thank you for your time on
22 that.

60

1 THE WITNESS: Yes, sir.

2 BY MR. IVEY:

3 Q Now, sir, with respect to the loan that we
4 were discussing initially?

5 A Yes, sir.

6 Q You said that a one-year note was common
7 for these types of loans?

8 A Yes, sir.

9 Q I think you also mentioned that the fact
10 that it was unsecured was not uncommon either?

11 A Right.

12 Q Do you have any evidence, or do you have
13 any recollection, of any special treatment being
14 accorded to this loan by virtue of the fact that it
15 was a loan to Bill Clinton?

16 A No, sir.

17 Q Now, sir, with respect to the financial
18 statement that was discussed earlier, that was the
19 financial statement from the Bank of Cherry Valley?

20 A Yes, sir.

21 Q Now, my recollection of what you said was
22 that this statement was about six months old at the

1 time that the loan was given to Mr. Clinton?

2 A Yes, sir.

3 Q And that there was nothing unusual about
4 taking a financial statement from another bank, under
5 this circumstance, the fact being that it was less
6 than a year old?

7 A Yes, sir.

8 Q And did the financial statement provide you
9 with the type of information that you normally would
10 have wanted during the loan application process?

11 A Yes, sir. It was a fairly simple statement
12 of assets and liabilities and net worth, with
13 supporting information concerning banking
14 relationship, a breakdown of some of the assets, a
15 list of those add-ups that make up the assets, had a
16 list of stocks and bonds, had a list of real estate
17 properties, and a list of banks where accounts were
18 maintained.

19 Q Yes, sir. So I take it it was not of
20 concern to you that this was a financial statement to
21 the Bank of Cherry Valley?

22 A No, sir.

1 Q All right. Now, sir, you were also asked a
2 question about false statements, and I believe it was
3 with respect to the financial statement. I think you
4 said that it would have been illegal for a false
5 statement to have been made on one of these forms.
6 Do you recall that, sir?

7 A Yes, sir.

8 Q To the best of your knowledge, are you
9 aware of any deliberately false statements on any of
10 these documents that you've looked at today?

11 A No, sir, I am not.

12 Q Now, sir, with respect to the past due
13 notices that you were questioned about earlier, I
14 believe with respect to the '84 loan, you first
15 mentioned that two notices had gone out, I believe it
16 was October 5th and October 15th; is my recollection
17 correct on that?

18 A I believe that's right. I am looking for
19 the notices.

20 Q Take your time.

21 A Yes, sir. One went out on October the 5th,
22 another followed on October the 15th.

1 Q All right. And you said that these would
2 have been computer generated, and would have been
3 sent out automatically?

4 A Yes, sir.

5 Q You also mentioned, I think, that it was
6 common for single pavement notes, like the one that
7 we have been discussing with respect to Mr. Clinton,
8 to go for the period of one year without a principal
9 payment being made, until at or about the date of
10 maturity?

11 A Yes, sir. I think it most common for
12 single payment notes not to have any payments until
13 they mature.

14 Q So that didn't strike you as unusual in
15 this case?

16 A No, sir.

17 Q And I take it that the fact that this
18 common occurrence with respect to payments occurred
19 on a loan to Mr. Clinton didn't mean that he was
20 being accorded any special treatment?

21 A No, sir.

22 Q Do you know if this loan was ever repaid in

1 full?

2 A No, sir. I am not sure.

3 Q Given the interest rates that you've seen
4 on the original loan and the extension agreements,
5 would it be your recollection that these rates were
6 consistent with interest rates that were being
7 accorded to other borrowers from Security Bank of
8 Paragould?

9 A Yes, sir. The original loan?

10 Q Yes, sir.

11 A In September of '83, the rate was 13-1/2
12 percent. I don't remember all of the rate
13 structures, but rates had begun to come down from
14 there, from their high point in '81. So I would say
15 that was probably the prevailing rate.

16 Q So is it your understanding that, with
17 respect to the past due notices, the note matured and
18 these automatic notices were sent out as they would
19 be with any other overdue loan?

20 A Yes, sir.

21 Q So is my understanding correct then that
22 there was no special treatment accorded to this loan

1 in this respect either?

2 A Not to my knowledge.

3 Q Now, sir, with respect to the letter from
4 Mr. Jackson, I take it from your previous testimony
5 that Mr. Jackson is a man that you have known for
6 over 30 years?

7 A Yes, sir.

8 Q And you have worked with him on two
9 occasions?

10 A Yes, sir.

11 Q So you know him very well?

12 A Yes, sir.

13 Q And you have had a chance to take a look at
14 this letter that he sent to you. And I take it that
15 you two had, at the time this letter was sent in
16 1985, a relationship where he could have picked up
17 the phone and called you and spoken to you very
18 candidly about things?

19 A Sure.

20 Q But it seems from your previous testimony,
21 that you really don't have much recollection of
22 either this letter or whatever events may have

1 surrounded it at the time?

2 A I don't remember ever seeing the letter.

3 Q So I take it this letter didn't make a big
4 impression on you?

5 A Well, no, sir, I don't remember seeing it.
6 I am not sure that I ever have seen it before today.

7 Q Okay. Do you recall any attempts by
8 Mr. Jackson to improperly influence you or anyone
9 else at the Security Bank of Paragould with respect
10 to this loan to Mr. Clinton?

11 A No, sir.

12 Q And I take it that if that had occurred,
13 that's something that you definitely would remember?

14 A I would have remembered, yes, sir.

15 Q Do you think that Mr. Jackson is the type
16 of person who would try to do something like that,
17 improperly influence --

18 A No, sir.

19 Q If I could have just a moment to review my
20 notes, I may be done.

21 Let me ask you a question about the letter
22 from Mrs. Clinton. Let me find it myself, here. I

1 apologize for the delay, but if you could give me
2 just a moment.

3 When you testified a moment ago, you were
4 read a piece of the letter. Was this letter a copy
5 of this letter sent to you in the package that you
6 got?

7 A Yes.

8 Q Now, I take it from your testimony that you
9 weren't privy to the conversation between Mr. --
10 apparently Jim McDougal and Mrs. Clinton that this
11 letter seems to reflect; is that fair?

12 A Yes, sir, I never heard of it.

13 Q This is the first time you have seen this
14 letter?

15 A Yes, sir.

16 Q It does reference here that there was a
17 notice demanding payment, which I guess we can assume
18 was one of the late notices that we discussed a few
19 minutes ago, one of the computer generated late
20 notices?

21 A Yes, sir, I would think so. Her letter is
22 dated October the 22th; one of those notices was

1 dated October the 15th.

2 Q There is a reference here in the letter to
3 a written request to extend the note, but I take it
4 that you had not seen that.

5 A No, sir, I don't remember getting a written
6 request at all.

7 This is 1984, which was the first maturity
8 that occurred on this note, and I do remember that
9 there was a problem with an extension agreement, as I
10 testified a while ago. I don't remember the events
11 that led up to the payment of that, nor the eventual
12 extension.

13 I do remember that one of the reasons it
14 continued past due was there was a problem in getting
15 the extension back to the bank.

16 Q Yes, sir. Now, this reference here to the
17 written request, I guess you mentioned yourself in
18 your answer just a moment ago, that you had contacted
19 the governor's office, and that they told you that
20 the paperwork, I guess, for the extension agreement
21 had been misplaced in some way?

22 A Yes, sir.

1 Q And I guess that could be read as
2 consistent with the letter that was discussed here,
3 from Mrs. Clinton, dated October 22nd?

4 A I'm not sure. Would you -- I am not sure
5 what we are saying is consistent with what, sir.

6 Q Well, with your recollection of the
7 conversation with someone at the governor's mansion
8 that the paperwork had been misplaced?

9 A I think that is consistent with the same
10 past due status of this note, yes, sir.

11 I don't know anything about a written
12 request. But I think we are -- I think the letter,
13 as I read it, and testimony I gave relative to the
14 conversation at the governor's office, all talk about
15 the same problem or the same note, number one,
16 maturity date, October '84.

17 Q Your actions with respect to the loan in
18 1984-1985 -- well, to the extent you had actions
19 relevant to the loan in that time period -- basically
20 you treated it the same way you would have treated
21 other loans?

22 A Yes, sir.

70

1 MR. IVEY: I have no other questions at
2 this time. Thank you for your time.

3 MR. BARTOLOMUCCI: Mr. Campbell, just a
4 couple of logistical things.

5 EXAMINATION

6 BY MR. BARTOLOMUCCI:

7 Q You did sign and return to me the
8 confidentiality agreement I sent you; right?

9 A Yes, sir.

10 Q And the Fed Ex package that you received
11 containing the documents, was it sealed when you
12 received it?

13 A Yes, sir, it was.

14 Q No one had opened it?

15 A No, sir.

16 Q And have you copied any of the documents
17 that were in that package?

18 A No, I have not.

19 Q Have you showed the documents to anyone?

20 A No, I have not.

21 Q And it is your intention to return those
22 documents to me without showing them or copying them?

MR. BARTOLOMUCCI: Okay. That's all we
r you. Thank you very much.

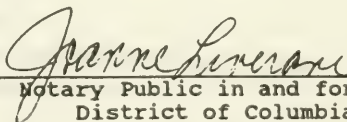
(Whereupon, at 3:43 p.m., the deposition was concluded.)

CHARLES D. CAMPBELL

CERTIFICATE OF NOTARY PUBLIC & REPORTER

72

I, JOANNE LIVERANI , the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires

JULY 31, 2000

**DEPOSITION OF
BEVERLY BASSETT SCHAFER
IN RE: S. RES. 120**

MONDAY, APRIL 29, 1996

**U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.**

Telephone deposition of BEVERLY BASSETT SCHAFER, called for examination pursuant to notice of deposition, at 9:38 a.m. in Room 640-A of the Hart Senate Office Building, before SHEILA M. LYONS, a Notary Public within and for the District of Columbia, when were present:

**MARK J. BRENNER, Esq.
Majority Assistant Special Counsel
LANCE COLE, Esq.
Minority Deputy Special Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.**

CONTENTS

WITNESS

EXAMINATION

Beverly Bassett Schaffer

by Mr. Brenner 6

P R O C E E D I N G S

MR. BRENNER: This is a deposition conducted to Senate Resolution 120 and the resolution established a Special Committee administered by the Senate Banking Committee to conduct an investigation into Whitewater Development Corporation, Madison Guaranty, Capital Management Services, Arkansas Development Authority, and other related matters.

Section 1(b)(2)(A) of Senate Resolution 120 authorizes an investigation and public hearings into the operations and solvency and regulation of Madison Guaranty Savings & Loan and any subsidiary. We are also conducting an investigation into whether or not the White House was engaged in any ongoing investigations by any government agencies.

This is a deposition that is taking place in advance of public hearings, which, they may occur later this month and they may occur in the beginning of June. We have not decided whether or not we are going to have hearings on some of these issues, and certainly we haven't decided who the witnesses may be. If we do call you to testify a second time, you

4

will obviously be contacted, by probably both Lance and me, but certainly someone from the Committee.

The stenographer will prepare a record of questions and answers. The deposition is going to be treated as Committee Confidential until the commencement of hearing. Whole or part of this deposition may be made public.

Prior to the hearings, you will receive a letter from the Committee telling you that you may come to the Senate to review the transcript. The transcript will be available for your review within five days of today. You may correct the deposition and make note of any correction goes for the transcription on an errata sheet for the limited purpose of review of information, not to be disclosed for other reasons, for press or other witnesses. We have been running into some issues with this.

Since you are in Arkansas, we may be able to make it available to you, your deposition, for an errata sheet through a means other than just by coming to the Senate. That can certainly be worked out between Lance and you and me.

1 If you are called to testify at the public
2 hearings you will be provided a copy of your
3 deposition four days in advance of your testimony.
4 And again, it's for the limited purpose of preparing
5 yourself for public testimony. It's not for release
6 to the press or to other witnesses, or to be
7 disclosed for other reasons.

8 Since you have testified before, there has
9 been some -- since you have testified to some issues
10 before, there has been some new information which has
11 come to the Committee's attention, and that is why we
12 have asked for your deposition today.

13 You may be represented by counsel. As we
14 discussed off the record, I know that you are not
15 represented by counsel. Objections as to the form of
16 the question will be noted for the record. There are
17 two grounds upon which counsel may object and give an
18 instruction not to answer: Privilege and scope.

19 Mr. Cole, while I'm asking the questions,
20 may have certain objections to scope issues and you
21 may have certain questions as to scope issues. And
22 at that point, the objection will be made, and if you

1 refuse to answer the question the Committee Chairman,
2 Senator D'Amato, will rule on objections in the case
3 where we can't agree.

4 At this point, I'm going to ask the
5 reporter to swear you in, Mrs. Schaffer.
6 Whereupon,

7 BEVERLY BASSETT SCHAFFER
8 was called as a witness and, having first been duly
9 sworn, was examined and testified as follows:

10 EXAMINATION

11 BY MR. BRENNER:

12 Q Would could you please state your name for
13 the record.

14 A Beverly Bassett Schaffer.

15 Q And do you like to go by Beverly Schaffer?

16 A That is fine.
17
18
19
20
21
22

1
2 Q From the time that I contacted you and you
3 were noticed in the deposition, have you had any
4 conversations with anybody, other than your attorney
5 and family members, about the substance or subject
6 matter that you have been asked to testify about
7 since you last appeared?

8 A No.

9 Q Without telling me what you have been asked
10 or what you have said, could you tell me whether or
11 not you have been interviewed or questioned under
12 oath by any investigative agency or individual about
13 the substance or subject matter of our inquiries?

14 MR. COLE: That is a pretty broad question,
15 if she knows what the subject matter of our inquiries
16 encompasses.

17 THE WITNESS: Well, Lance, I guess that is
18 a point I need to clarify as well, because since I
19 don't know what the scope or the subject matter is of
20 this particular deposition, I think we need to
21 clarify are we talking about the scope of the entire
22 investigation, like the Senate Resolution generally.

1 BY MR. BRENNER:

2 Q Yes, the first question I asked was the
3 Senate Resolution generally.

4 A So the question is have I been interrogated
5 by any investigative agency concerning matters
6 subject to Senate Resolution 120, for what period of
7 time, ever?

8 Q Since December of 1993.

9 A December of 1993. Okay. I guess I'm
10 confused. We are talking about any federal or state
11 or any investigative authority of any kind, is the
12 question --

13 Q That is the question.

14 MR. COLE: So that would include
15 representatives of the Federal Bureau of
16 Investigation working with Special Counsel Fiske or
17 Independent Counsel Starr?

18 MR. BRENNER: Yes, that's correct.

19 THE WITNESS: December of 1993. I have
20 testified before the grand jury pursuant to a
21 subpoena from the Independent Counsel.

22 BY MR. BRENNER:

1 Q Okay. That answers the question.

2 Have you talked to anybody from the Eastern
3 District of Arkansas, the U.S. Attorney's Office in
4 the Eastern District related to Madison Guaranty or
5 the oversight of Madison?

6 A Who would that be?

7 Q Who would be in the Eastern District?

8 A Yes. I mean, this is very confusing. Are
9 you asking have I had any conversation or been
10 interrogated by?

11 Q I'm asking if you have been interrogated
12 under oath by anybody from the U.S. Attorney's Office
13 in the Eastern District of Arkansas?

14 A No.

15 MR. BRENNER: Okay. I'm going to avoid
16 going through the litany of background questions that
17 we normally ask at this point, education, et cetera,
18 in light of the fact that you have testified before
19 the Committee. I think Mr. Cole will be pleased to
20 hear that.

21 MR. COLE: I have no objections to
22 proceeding on that basis.

10

1 BY MR. BRENNER:

2 Q Make it as expeditious as possible,
3 Beverly. Are you okay?

4 A I'm fine, Mark.

5 Q Okay. I'm going to start right in. Now,
6 since you testified in January, January 25, 1996,
7 since the time you finished testifying, did you talk
8 to anyone from the White House about either your
9 testimony or anything related to Senate Resolution
10 120?

11 A Anybody at the White House?

12 Q Yes, anybody employed in the White House.

13 A No.

14 Q Anybody employed in the Executive Branch of
15 the federal government?

16 A I don't think so.

17 Q Do you know if Archie Schaffer, your
18 husband, has talked to anyone from the White House?

19 MR. COLE: I don't know that it's
20 appropriate to ask Ms. Schaffer to speculate about
21 what her husband has or hasn't done.

22 MR. BRENNER: I didn't ask her to

1 speculate.

2 THE WITNESS: I don't have any idea. I
3 doubt it. About the substance of it? You see, that
4 is where I want to make sure that we understand the
5 difference between the fact of my testimony and the
6 substance of my testimony.

7 The fact that I testified may have been the
8 subject of a comment here or there, but in terms of
9 the subject of it, I would say since that was a
10 matter of public record, if anybody commented on it,
11 it would be something they saw, you know, when it was
12 on C-SPAN. But if he did, I don't remember him
13 telling me.

14 BY MR. BRENNER:

15 Q I will ask the more general broad question,
16 either substantive, including both substantive and
17 the fact of the testimony; and then the more specific
18 questions.

19 Now, did you have an opportunity to see any
20 of the hearings with Mr. Gearan or Mr. Ickes?

21 A I did. I saw a portion of Mr. Gearan's
22 testimony and some part of Harold Ickes's testimony,

1 but not all of either of them.

2 Q Did you talk to anyone about that
3 testimony?

4 A Not that I -- other than my husband, well,
5 I may have talked to members of my family or friends
6 in general, commented on one thing or another that
7 they said. But if I did, it doesn't stand out in my
8 mind. I mean, I didn't make any note of it. It
9 doesn't, if I did, it was just in passing, to friend
10 or family. I don't recall any other conversations
11 about the substance of what they said.

12 Q With regard to friends you may have spoken
13 with, would that have been anyone from Wright,
14 Lindsey & Jennings?

15 A I don't remember having a conversation with
16 anybody at Wright, Lindsey & Jennings about it.

17 Q Okay. After your testimony, did you talk
18 to anybody that you know to be affiliated with the
19 Clintons about your testimony? And that would
20 include Betsey Wright, who is not at the White House,
21 but who is certainly a longtime friend and supporter
22 of the Clintons.

1 A I haven't talked to Betsey since I
2 testified, no.

3 Q How about Skip Rutherford?

4 A No, I haven't talked to Skip.

5 Q Have you talked to John Tisdale?

6 A I don't think I have talked to John about
7 my testimony. I don't think, I'm not sure I have
8 even talked to John since I testified.

9 Q Okay. Just so it's clear, it's not just
10 that you didn't talk to John about what you testified
11 to, but you haven't talked to John generally about
12 anything related to Senate Resolution 120?

13 A Since I testified?

14 Q Yes.

15 A I don't think so. I mean, I don't remember
16 having any conversation with him about it. I don't
17 think so.

18 Q In a meeting on January 6, 1994 in the
19 White House, a meeting that was discussed fairly
20 prominently in the testimony of Mr. Ickes and
21 Mr. Gearan, there is a notation that "Beverly Bassett
22 letter/info, BL-Waldman, get a lawyer to check out

1 law on issuance of preferred stock-did anyone
2 contact" -- oh, I'm sorry. Now let's get to my
3 question.

4 Did anyone contact you in January or
5 February of 1994 about any of the preferred stock or
6 other securities department issues?

7 A Anybody from the White House?

8 Q Anyone generally?

9 A The only person that I have talked with
10 about it whose name has been mentioned -- let me
11 clarify this.

12 There are a lot of reporters who ask me
13 about it, who I talk about, and I'm sure you are not
14 interested in those individuals names. But as far as
15 the names that you have mentioned to date, of people
16 who you may be interested in that I talked to, John
17 Tisdale was the only one of those names that I can
18 recall that I may have talked to about that, those
19 issues since January of '94.

20 Q Did you meet with Mr. Tisdale, or did you
21 have an in-person conversation or on the phone?

22 A Probably talked to him on the telephone,

1 since I was working in the Fayetteville office then
2 and he works out of the Little Rock office of Wright,
3 Lindsey & Jennings so I imagine it was by telephone.

4 Q He may have come up to Fayetteville?

5 A Well, I periodically went to the Little
6 Rock office on somewhat of a not regular, but every
7 now and then basis, even while I was working out of
8 the Fayetteville office. So I would have seen John,
9 on occasion, just during the times I was in the
10 Little Rock office, even though I worked out of the
11 Fayetteville office.

12 So we have had occasion to see one another
13 during that time period without making special
14 arrangements to do that.

15 Q Now, you had said that of the names I had
16 mentioned that that was the person you recalled. Do
17 you recall talking to anyone else who may be
18 affiliated with the White House, either who works in
19 the Executive Branch that you know from Arkansas or
20 who you know to work closely with the Clintons?

21 MR. COLE: About what?

22 THE WITNESS: The time period in question

1 is January of 1994; is that correct?

2 BY MR. BRENNER:

3 Q Yes, January, February of 1994. About your
4 work on the preferred stock issue or other securities
5 department issues that would relate to either Madison
6 or Lasater & Company or any other part of Senate
7 Resolution 120. And I realize that is a broad
8 question.

9 A Yes, so I want to be sure that I don't give
10 a very narrow answer as well. But in terms of my
11 memory of any significant conversation or any
12 conversation that would be beyond cursory comment or
13 two would have been with John Tisdale. I don't
14 remember having a conversation with anybody at the
15 White House, or on behalf of the White House, during
16 that time.

17 Q When you talk about a "cursory comment," do
18 you mean -- I guess I need you to define that.

19 A Mark, I can hardly go to the grocery store
20 without somebody stopping me and commenting about the
21 subject of Senate Resolution 120, so I just need to
22 be careful about making blanket denials of no, I

1 haven't discussed that or I didn't say that, because
2 most certainly in a casual way, I may have.

3 But that is why I'm just -- I want to be
4 careful about my answer, but that is what I really
5 mean --

6 MR. COLE: I think it would make it
7 easier --

8 THE WITNESS: -- about being in the hallway
9 and somebody will stop me and comment about it. But
10 those would not be conversations in which we were
11 discussing the details of my testimony or the details
12 of what happened during the '80s and that sort of
13 thing.

14 BY MR. BRENNER:

15 Q Okay. I guess the way we will define it,
16 because we need the clearest record possible, is that
17 a cursory comment would be nonsubstantive
18 conversations, such as can you believe this or did
19 you see that or did you read that?

20 A Right.

21 Q Not related to -- I would like to limit the
22 cursory comments to anyone that isn't related to or

1 whose name you haven't heard from me or from the
2 Committee.

3 Well, in other words, a cursory comment by
4 the President is different that a cursory comment
5 when you bump into someone in the market. So I would
6 like you to include cursory comments, if you can
7 remember them, to the extent you can remember them,
8 with people like the President.

9 A Sure. During that period of time, of
10 course during that period of time -- I think I
11 testified earlier this year -- in January of 1994,
12 during a visit to the White House, my husband and I
13 did have occasion to see the President. And I think
14 I testified earlier this year that he did comment to
15 me that he was sorry about everything that had
16 happened on these matters, to me, and the things that
17 I had been put through, and that he was sorry this
18 had happened and apologized to me for all of it.

19 And that may or may not be a cursory
20 comment, but I understand that from your perspective
21 it is one that you want to know about, and I have
22 testified to that and that is the only communication

1 that I can remember having, during the time period we
2 are discussing here, with somebody from the White
3 House about so-called Whitewater matters.

4 We didn't discuss what happened in the
5 '80s. This was a comment about process more than
6 substance, and in which he apologized to me about
7 everything that had happened.

8 Q Yes, I did read that.

9 A All right.

10 Q During January and February of 1994, I had
11 asked you whether or not anyone talked to you about
12 preferred stock or the Arkansas securities department
13 related to Senate Resolution 120. And that question
14 should include any potential investigation that, just
15 around the time that the White House asked for the
16 appointment of an independent counsel.

17 Did anybody from the White House or you
18 knew to be affiliated with the White House contact
19 you about the fact that there may be an investigation
20 by an independent counsel or by the Department of
21 Justice into some of these matters?

22 A No.

1 Q And when I say that, that includes Betsey
2 Wright?

3 A Yes, I haven't talked to Betsey about this,
4 about anything directly with Betsey during this,
5 well, since then, during that period of time and
6 since then.

7 So no, no one from the White House made any
8 comment to me about a potential investigation or no
9 one on behalf of the White House that I'm aware of.
10 I think during that period of time it was generally
11 known that there would be an independent counsel
12 likely appointed, just from news media reports. That
13 is how I learned of it.

14 Q And you had said that you didn't speak
15 directly with Betsey since that time. That time --

16 A You had been asking me about the period
17 January and February of 1994, and I think the point
18 that I'm making is I don't think I have had a
19 conversation with Betsey during that period of time
20 or since then.

21 Q When do you recall was the last time you
22 spoke to Ms. Wright?

1 A Well, probably sometime while I was still
2 securities commissioner, prior to the presidential
3 campaign.

4 Q Do you recall speaking during January and
5 February of 1994 about any of the issues related to
6 Senate Resolution 120, and including a potential
7 investigation? And I will give you a list of names,
8 do them one at a time.

9 Do you recall speaking to Bruce Lindsey?

10 A I don't remember talking to Bruce about the
11 subject matter, but I probably did, if I saw Bruce.
12 If I saw Bruce during that period of time, say,
13 January or December of '93. We may have exchanged
14 comments about the fact that Whitewater or the news
15 media and Whitewater was driving us crazy or
16 something to that effect. But as far as discussing
17 the substance of it or details concerning any of the
18 issues about Senate Resolution 120, Bruce and I
19 didn't discuss so-called Whitewater matters in that
20 way. But I don't want to rule out the possibility
21 that we exchanged comments about the fact it was an
22 irritant that wouldn't go away.

1 I think Bruce was at the White House in
2 January of '94 when my husband and I attended a movie
3 there with the President. I believe Bruce was there
4 that night as well, and I don't want to rule out the
5 possibility we might have exchanged comments or
6 commiserated about so-called Whitewater matters at
7 that point. But beyond that, I don't remember any
8 discussions in any kind of detail with him.

9 Q How about Jim Blair, do you recall talking
10 to Mr. Blair about any of these issues during January
11 and February of 1994?

12 A I don't remember talking to Jim during that
13 period of time about these issues. I really don't.
14 I don't think we did. Like I said, in a social
15 setting, there may have been some comment in passing
16 about it. At the basketball game in December of
17 1993, there may have been some comment about it, but
18 that is the extent of what I can remember, so we must
19 not have had any meaningful discussions.

20 Q How about Mrs. Barry, Paul Barry?

21 A No. Paul, in January of '94 -- Paul is the
22 individual -- he is a friend of mine and my husband's

1 who we went to the White House with to attend the
2 movie that I have mentioned earlier. Paul was in
3 Washington at that time and we went over to the White
4 House with Paul and his wife. And we may have, there
5 is no doubt we mentioned the fact that Whitewater was
6 a continuing irritant for all of us, and commiserated
7 with one another. But I don't think I have ever had
8 any discussion in any sort of substantive way with
9 Paul about Whitewater.

10 Q How about Bill Kennedy?

11 A No, I haven't talked to Bill Kennedy in
12 years.

13 Q And Paul Begala or Harold Ickes or Skip
14 Rutherford, or any of those --

15 A No, never talked to Harold Ickes, never met
16 him. Mark Gearan, is that one, did you say him?

17 Q I did not say Mr. Gearan, but I would
18 include him in that list. I said I believe
19 Mr. Ickes, Mr. Rutherford, Mr. Waldman, and we would
20 include Mr. Gearan.

21 A Okay. Well, Mark Gearan and the other
22 individual whose name you said that maybe works with

1 Mark Gearan, I don't know those two people and I'm
2 sure I have never talked to them. I have never met
3 them.

4 And Skip, it's possible I talked to Skip in
5 January of '94 directly, although I think it probably
6 is more likely that he visited with my husband, who
7 passed along the conversations to me. But I may have
8 had a brief conversation with Skip during January of
9 '94. I am certain he talked to my husband during
10 that time.

11 Q Do you know generally what he talked to
12 Archie about?

13 A He was interested in finding out what
14 Archie thought about the possibility of me having a
15 press conference, or generally finding a way to
16 respond to the press's inquiries about my so-called
17 role in Whitewater and answering questions the media
18 had about that, and just generally discuss what -- or
19 ask, that is probably a more accurate description --
20 ask Archie what he thought my reaction would be to
21 doing that.

22 And they generally discussed the pros and

1 cons of doing that, and he, Archie, related that
2 conversation to me.

3 Q Do you know anything else about that
4 conversation?

5 A Well, no. I think it was pretty casual. I
6 don't think there was any suggestion that there was
7 any urgency to it, or that he was speaking on behalf
8 of somebody else or whatever. I don't remember any
9 other details about it. Like I said, it's possible
10 that I talked with Skip myself, but I just can't
11 remember doing that. I have a vague recollection
12 that I may have had a short conversation with him to
13 tell him I didn't want to do it, but I didn't have
14 any lengthy conversations that, such as the one he
15 had with Archie, in which they discussed why that
16 might or might not be a good idea and whether or not
17 I was interested in doing that.

18 Q And do you know if that discussion was in
19 person or on the phone?

20 A It was on the telephone.

21 Q Do you know where Skip works now?

22 A I think he works for Cranford Johnson

1 Robinson in Little Rock.

2 Q Do you know why Mr. Rutherford would be
3 calling Archie on this matter?

4 A Well, I don't know for sure what his
5 relationship was at the time with anybody in the
6 White House or who he worked for or in what
7 capacity. Although I remember reading at the time
8 that he was doing some work for Mack McLarty or
9 helping Mack in some capacity on certain issues, and
10 because of that, I think he was at the White House a
11 lot during that period of time.

12 I think that he may or may not have had
13 anybody in mind that he was speaking for. If he did,
14 he didn't tell Archie. As far as I know, he didn't
15 tell us, I'm speaking on behalf of so-and-so or I'm
16 here at the request of the White House, nothing like
17 that was ever said that I know of. I don't know that
18 I asked him or Archie ever asked him why are you
19 calling or what is your interest.

20 I think it was generally known that Skip
21 was doing some work for the White House or helping
22 Mack McLarty in some capacity, and I don't know that

1 either one of us thought about asking.

2 Q Do you remember when that conversation was?

3 A Well, I really don't, but I think, I
4 believe it was in January of '94, but I just don't
5 know if it was early on or toward the latter part of
6 the month. I'm thinking it was toward the end of the
7 month.

8 Q Well, if, for example, that had been
9 mentioned to you before you went to the White House,
10 do you think you may have brought it up with someone
11 at the White House?

12 A Well, that is a good point because I think
13 that left me more certain that it was after I went to
14 the White House, but in my mind, I don't remember
15 thinking anything about that conversation when we
16 were there.

17 Q I thought that might help. So it was
18 probably after January 20, 1994, but probably before
19 February?

20 A I would say, I think that would be more
21 accurate; yes, that sounds better. That is more
22 likely. I think it was after that, because I'm

1 almost certain it was after an incident that occurred
2 here in Fayetteville about an NBC TV crew and with
3 Mr. Bossie. And I know he called after that and that
4 didn't happen until, I think, January 12 of that
5 year, of '94. So I'm thinking it must have been
6 after, it would have to have been after the middle of
7 January.

8 Q Do you recall speaking to Mr. Rutherford in
9 the last couple months about anything including the
10 fact that he was deposed by us?

11 A No.

12 Q How would you describe your relationship
13 with Mr. Rutherford?

14 A He is a friend. I have known him for a
15 long time, since he went to school here in
16 Fayetteville or the university here in Fayetteville.

17 Q And so when he recommended -- why would he
18 have talked to Archie instead of you, do you know?

19 A Well, he has known Archie a lot longer and
20 knows Archie a lot better than he knows me. And I
21 think probably he's just more comfortable asking
22 Archie than calling me up and not knowing if I was

1 going to, you know, throw the phone down or just be
2 generally unwilling to talk.

3 I think he thought it was probably more
4 appropriate that he just casually mention it to
5 Archie and stop the subject if there was some
6 vehement objection. And I think it was just a matter
7 of comfort on his part.

8 MR. COLE: So that was a polite way for him
9 to make the inquiry without putting you on the spot,
10 perhaps.

11 THE WITNESS: Right. And I think that
12 because they are friends, it wasn't, neither of them,
13 I think, viewed that conversation as some sort of
14 formal approach or request.

15 BY MR. BRENNER:

16 Q There are a couple more names and I will
17 lump them together as I did on the last group. I
18 didn't know if anybody -- Paul Begala or Mack McLarty
19 or Mr. Buford -- may have talked to you about, since
20 the beginning of January, 1994 through mid-to-late
21 February, 1994, if any of those people had spoken
22 with you or had spoken with Archie?

1 A Okay. Now, I'm certain that Mack McLarty
2 did not talk to either one of us. And the others
3 were who? Paul Begala, and who is Buford?

4 Q Then Mr. Buford obviously didn't contact
5 you.

6 A Well, I know several people with the last
7 name Buford.

8 Q Let's talk about Paul Begala, and I will
9 get you a first name.

10 A Okay. Paul Begala, I never talked to Paul
11 Begala about this. His name was mentioned by Skip in
12 a conversation with Archie as an individual who
13 might -- if they came and visited with me in
14 anticipation of having a press conference or if I
15 were inclined to do something like that, that Paul
16 Begala might participate in that conversation with
17 me. We did not. We never followed up on that
18 suggestion or never pursued it. It was never done.

19 So I have never -- I didn't have a
20 conversation with Paul Begala about this, because the
21 concept or the idea was never followed up on.

22 Q You said Paul Begala's name was mentioned

1 by Skip to Archie as someone who may come visit you
2 to talk about some of these issues?

3 A Right.

4 Q Was any other name mentioned?

5 A No -- oh, now, yes. Bruce Lindsey. I
6 think basically what Skip had in mind was if I was
7 interested in having a press conference or wanted to
8 find a way to deal with these questions from the
9 media, that he, Skip, could put or would suggest that
10 he and Bruce Lindsey and Paul Begala come visit with
11 me and basically let me tell them what I had been
12 telling the press for two years and just listen to
13 that so they would know the whole story as well.

14 And I think the idea was that they could
15 help me prepare for such a press conference, but we
16 didn't -- my husband and I, that is -- particularly
17 like that idea and we didn't particularly want to
18 have Paul Begala involved in anything like that
19 because of his obvious political connection to the
20 '92 campaign, and because he is identified more or
21 less with spin control for the Clinton campaign. And
22 that is just something that I felt like I didn't want

1 to be a part of and shouldn't be tied into in my
2 responses.

3 Q So the names Paul Begala and Bruce Lindsey
4 were mentioned. How about Waldman?

5 A I have never heard his name until actually
6 Mark Gearan testified before the Committee this
7 year.

8 Can we go off the record a minute?

9 (Discussion off the record.)

10 MR. BRENNER: Okay, Beverly, we will go
11 back on the record. I'm almost finished with this
12 line of questioning. Just really two more.

13 BY MR. BRENNER:

14 Q I'm curious if Glenda Cooper or anyone from
15 the DNC in Little Rock or up here in Washington had
16 contacted you about doing this press conference, or
17 generally about the potential investigation in
18 January or February of 1994?

19 A Now, this is anyone with the what?

20 Q The Glenda Cooper or the Democratic
21 National Committee.

22 A Okay, I have never heard of Glenda Cooper.

1 And as far as I know, I have never had any contact
2 with the Democratic National Committee.

3 Q How about Susie Whittaker?

4 A No, I haven't talked to Susie Whittaker
5 about any of this.

6 Q I'm going to ask you a couple more
7 questions. Do you know if Archie has spoken to
8 anyone from the DNC?

9 A Who has?

10 Q Whether your husband, Mr. Schaffer, Archie
11 has.

12 A I'm sure -- I would bet yes. I don't think
13 he has had conversations with anybody at the DNC
14 about Whitewater or me.

15 Q There's some more notations in Mark
16 Gearan's notes relating to things that Harold Ickes
17 may have said, and it says "meeting of attorneys
18 outside of WH," which stands for White House. And
19 then it says "Beverly Bassett is so" expletive
20 "important, if we" expletive "this up, we are done.
21 Let's not talk it to death. Let's just get it
22 done."

1 Have you seen that from the hearings?

2 A Yes.

3 Q I apologize for Mr. Ickes's language as it
4 was recorded in Mr. Gearan's notes.

5 Did anyone express to you or Archie that
6 there were concerns in the White House or in the
7 Clinton inner circle including Betsey Wright, et al.,
8 about anything which may have expressed that level of
9 importance?

10 A No. I don't remember anybody in the White
11 House, or who was speaking on behalf of the White
12 House, or who we might have perceived as speaking on
13 behalf of the White House suggesting that I might be
14 or what I had to say might be that important. I
15 don't remember getting that impression.

16 I certainly remember, because of the media
17 focus on my role, that there was interest in my role,
18 but I don't remember it being viewed by either me or
19 the White House as being of great importance or of
20 any greater importance, than any anybody else's role.

21 Q Did Mr. Rutherford discuss with you that it
22 was important or touchy, actually, that it was

1 important to get you out front on the issues; in
2 other words, to get your statement out to the press
3 quickly?

4 A Well, I got the impression that what Skip
5 Rutherford -- what his interest was and his overture
6 was about was to help me, that it was more in the
7 nature of, we know she has been harassed and
8 bombarded and sort of overwhelmed, and maybe this
9 would help. You know, here is a suggestion, you
10 know, if she did this and answered all the questions,
11 then maybe that would put everything to rest and that
12 sort of thing.

13 I don't remember thinking that this was an
14 effort by the White House to get a story out there
15 for their purposes. I just didn't -- maybe it was,
16 but I didn't get the impression that it was more or
17 less extending a helping hand to me as to how to
18 deal with this.

19 Q At the same time when they mentioned Paul
20 Begala, you knew him to be a spin control expert?

21 A Right.

22 Q So your last statement about the fact that

1 you just felt they wanted to help you, when they
2 mentioned Paul Begala, did you think that maybe they
3 also wanted to control the spin, as it were?

4 A Well, I think obviously that is part of
5 Paul Begala's job, and what I was thinking is that he
6 felt like if he could listen to me and what I had to
7 say about all this, that would help him be able to go
8 out and say what needed to be said about all this,
9 separate and apart from me. That before you go out
10 and say anything, it does help to have the facts.
11 That you are better off not going out and spinning
12 something that isn't true, you need to at least spin
13 the facts.

14 But my concern was that if I met with him
15 or he was involved in trying to help me, then no one
16 would ever be able to separate the two. I was
17 inevitably linked with some sort of spin control
18 effort and that would affect my credibility, and I
19 just didn't want to make that connection. I didn't
20 want to be a part of that.

21 I didn't think, though, that he was coming
22 to tell or going to come to tell me what to say and

1 what needed to be said. But I did have some concerns
2 about talking with him at all, because of that.

3 Q There's a couple other items I want to talk
4 to you about, about the notes and one of them says
5 "we can't send PB, BL, MW," presumably that is Paul
6 Begala, Bruce Lindsey, and I believe it's Michael
7 Waldman?

8 A Right.

9 Q "It will come out." And then under that,
10 it says "item by item make sure her story is okay."
11 And that underneath that, it says "Tisdale question
12 mark in Lindsey firm, Skip question mark, WH pass,"
13 which is White House pass, "PB friend, New York
14 lawyer." Presumably that is Paul Begala, because I
15 believe you stated earlier that you didn't, or that
16 could either be Paul Begala or Paul Barry, "friend,
17 New York lawyer. Quinn-arm's length."

18 I'm going to run through this item by item
19 with you. When it says "item by item make sure her
20 story is okay," John Tisdale, you said earlier you
21 are familiar with and you did have some conversations
22 with Mr. Tisdale?

1 A Yes.

2 Q And those were general conversations?

3 A Well, John Tisdale, sometime during this
4 same period, sometime in January of '94, came to me
5 and suggested -- let me back up.

6 I think this was after I had decided that I
7 wasn't interested in dealing with the press anymore
8 and I didn't want to have a press conference, and I
9 basically just wanted to back off and not have
10 anything to do with the press on it.

11 John suggested that one way to deal with it
12 would be to put together a factual, sort of
13 chronological document, series of documents in a form
14 that would frame the chronology of the matter for any
15 event that could be given possibly to somebody who
16 asked about it in lieu of me answering questions over
17 and over again.

18 He suggested that it would also be of
19 benefit in getting that information to the White
20 House and he offered to put that together and to let
21 me look at it and review it and make sure, make
22 comments on it, make sure it was correct. And I told

1 him that was fine with me, that I basically didn't
2 want to take the time to even do that, but that he
3 was welcome to go to the securities department and
4 pull the public records, like anybody else could, and
5 put them in chronological order, and that I didn't
6 have any problem with that, with a factual chronology
7 of documents in the files at the securities
8 department.

9 So that's basically what John and I talked
10 about during that period of time, and that is the
11 document that he put together and I put together
12 that -- well, I think the Committee has got it, as a
13 matter of fact. But that is what we talked about.

14 Q And did Mr. Tisdale ever put that
15 chronology together, to the best of your knowledge?

16 A Well, he put it together. I looked at it,
17 just went over it with him, and that document is --
18 well, I think you-all have got it. The Committee has
19 it, yes. I'm not sure what the date is on it. I
20 think the White House must have produced it, but the
21 date is sometime in '94, early '94. And it just
22 generally in memorandum form lists a date, a

1 document, you know, a short description of what it
2 is, from, I don't know, the early '80s through, I
3 don't even know what the last date is on Madison
4 Guaranty documents in the files of the securities
5 department, and action taken or letter written and
6 that sort of thing.

7 MR. COLE: We have it. Mark may not have
8 it today, but we have it.

9 MR. BRENNER: I know we have it. It's more
10 the process of putting it together that I'm
11 interested in.

12 BY MR. BRENNER:

13 Q Did Mr. Tisdale say why he was interested
14 in putting a chronology together?

15 A Well, as I remember it, the way it evolved
16 is that it was sometime after, oh, sometime after the
17 discussions about how to respond to sort of the
18 inundation from the press on questions about what
19 happened, what happened, what happened. And I had
20 indicated to him -- to John, too -- that I was fed up
21 and I wasn't, you know, I couldn't get anything done
22 in my law firm, that I was tired of taking questions

1 and that I just didn't want to have a press
2 conference. I didn't feel like that was my arena. I
3 didn't want to do that.

4 And he suggested that he understood that
5 and that basically there wasn't any pressure to do
6 that and that my feelings about that were perfectly
7 legitimate and that -- but an alternate way to get
8 the facts out that would allow. And I'm sure that
9 would allow also the White House to respond factually
10 to those questions; since I felt basically like that
11 was their duty and not mine, that if a factual
12 document existed that listed documents that clearly,
13 you know, on a chronological basis could be verified,
14 that was the best way to make sure the facts some way
15 or another got disseminated to the press and to
16 anybody who called.

17 I was happy to help or to assist in that
18 process and have it passed along to the White House
19 because my impression was that they hadn't made a
20 full-blown effort to get the facts and to enable them
21 to respond to any of these questions, and because of
22 that, I was still being asked to respond or there was

1 still a need for me to respond and that truly they
2 should get the facts, have the facts and do the
3 responding themselves.

4 So basically that is what John suggested,
5 that that ought to be done, and I had no problem with
6 that. I fully agreed.

7 Q And at this time John was working for the
8 White House, or he was working in the private sector?

9 A He was working in the private sector.

10 Q And so his role was as a conduit to the
11 White House?

12 A I don't have any idea what -- whether he
13 visited with Bruce about it or who he might have
14 talked to about it in the White House. I didn't ask
15 him and he didn't tell me, and I'm sure that he gave
16 it to Bruce. I don't know whether he told me
17 specifically that he was going to, but I mean, I
18 assumed he would and that was fine with me.

19 But I don't know that I asked and I don't
20 think he told me who he talked to about it, whether
21 he talked to Skip or talked to Bruce, or who. I
22 assumed that he talked to Bruce, but he did not tell

1 me that.

2 Q And underneath that it says "Skip question
3 mark White House pass." You had stated earlier you
4 did speak to Mr. Rutherford who is a longtime friend
5 of yours --

6 MR. COLE: I think she testified she is
7 certain that her husband spoke with Mr. Rutherford
8 and she may have spoken with him.

9 BY MR. BRENNER:

10 Q I apologize; that Archie may have spoken
11 with him and that you may have spoken with him. I
12 certainly didn't mean to mischaracterize it in that
13 fashion or in any fashion.

14 Do you know who Skip was working for in
15 reaching Archie for this purpose? I'm trying to
16 figure out why these private sector individuals, like
17 John Tisdale, would reach out to you.

18 Did you view it as being on behalf of the
19 White House?

20 A Not, I didn't give it a whole lot of
21 thought, really. I don't think I thought to think
22 who may have wanted it or thought it was necessary or

1 the like. I think Skip, I just sort of knew, I think
2 we both knew that he was doing some work for the
3 White House, either for Mack or in some capacity.

4 So honestly, I would have to say in the
5 back of my mind, I guess I must have assumed that he
6 had talked to somebody there, but I never considered
7 it important, I guess, or necessary to know. I
8 assumed that whatever information he was seeking was
9 something that I had already either answered for the
10 press or was in the public files, and so I didn't
11 consider it particularly important to ask.

12 I'm sure I assumed that Skip had had a
13 conversation with maybe either Bruce or -- I know
14 that Skip knows Paul Begala, but I don't have any
15 idea -- and I think Harold Ickes's or Mark Gearan's
16 notes are the only things that would give any
17 indication of who was discussing this at the time.

18 I just assumed that it was information that
19 the White House should probably have already had and
20 made an effort to get before that time.

21 Q Well, you just said that you assumed they
22 had that information?

1 A I assumed that they-- that it was
2 information basically about what the securities
3 department had done during the '80s on all this, that
4 it was information they should have already gone and
5 gotten. They should have already have made an effort
6 to collect all those factual documents and
7 information in order to respond to the press and
8 other inquiries about it.

9 So it wasn't surprising to me that they
10 were making an effort. I think I viewed it as
11 positive that they were making an effort, somebody at
12 the White House was making an effort to get the
13 facts.

14 Q I'm going to read you a portion of the
15 transcript from the January 25 hearing, and it starts
16 with a question.

17 Mr. Guiffra says:

18 "Question: After January 20, 1993, did you
19 speak to anyone at the White House about Madison
20 Guaranty?

21 "Mrs. Schaffer: After when?

22 "Question: After January 21, 1993, did you

46

1 speak to anyone at the White House about Madison
2 Guaranty?

3 "Answer: Myself?

4 "Question: Yes. Did you ever speak to
5 Mr. Lindsey, for example, about Madison Guaranty?

6 "Answer: I don't think Bruce and I talked
7 about it."

8 I will ask the initial question, because
9 somehow in that it may appear it may have been
10 narrowed. The initial question is after January 20,
11 1993, did you speak to anyone at the White House
12 about Madison Guaranty?

13 A So basically after the inaugural, is that
14 January 20 of '93?

15 Q Yes.

16 A After January of '93, the question is, did
17 I talk to anybody at the White House or in the White
18 House or who works for the White House?

19 Q That's correct.

20 A Okay.

21 MR. COLE: Is there an answer, did you read
22 her answer?

1 BY MR. BRENNER:

2 Q I did read your answer, but I think you
3 answered a more narrow question and perhaps
4 Mr. Guiffra may have narrowed it to some extent.
5 That is why we want the record to be clear on that.

6 MR. COLE: I'm trying to determine what we
7 are doing here, whether we are following up on a
8 question you don't feel you got an adequate answer to
9 during the hearing when Mrs. Schaffer appeared, or
10 what. You are comparing now what she said during the
11 hearing; is that correct?

12 MR. BRENNER: At this point I'm trying to
13 clarify the record on this particular issue.

14 THE WITNESS: Well, I think that after -- I
15 think what I can say about that is I don't think I
16 have had a conversation with anybody in the White
17 House about Madison Guaranty matters since January of
18 '93 to date, other than what I have mentioned here
19 today or testified to in January. And those are the
20 brief conversations with the President when I was at
21 the White House in January, a passing remark or
22 comment or exchange with Bruce about the fact of the

48

1 proceedings and what all has gone on. Just the fact
2 of it, the difficulty of it, not the substance, the
3 details of it.

4 Those exchanges I'm sure I have had with
5 Bruce since January of 1993 on occasions when I have
6 seen him, but those occasions are probably two or
7 three times in that, what, three years.

8 BY MR. BRENNER:

9 Q And it was a passing remark in those cases,
10 it wasn't anything substantive?

11 A It wasn't -- right, we didn't talk about,
12 just the substance of Madison and what happened, we
13 didn't talk about that. If we commiserated, it was
14 over just how difficult it's been and the stress and
15 the general turmoil, and that sort of thing.

16 And Bruce and I didn't talk about -- he
17 didn't ask me questions and I didn't ask him
18 questions -- about what the White House was doing.
19 He didn't ask me any questions about what I was doing
20 or what I knew. He didn't ask me to go over anything
21 that happened in the '80s.

22 Just like I said, one of the reasons the

1 chronology was important in my mind was to reduce all
2 of these to a series of documents and give that to
3 them and let that be, stand on its own.

4 Q Do you know if Archie has had any -- by the
5 way, so the record is clear, we can agree that
6 substantive conversations include the potential or
7 ongoing -- a discussion about the potential or
8 ongoing investigation by the independent counsel, the
9 Department of Justice, the Resolution Trust
10 Corporation, the Small Business Administration, or
11 any sort of related entity on the Resolution's
12 matters?

13 A Right.

14 Q Okay. I just wanted to make sure that when
15 we talk about substantive conversations as opposed to
16 passing remarks --

17 A Right.

18 Q -- that --

19 A Well, no, I don't know of all the
20 conversations that my husband may have had with Bruce
21 Lindsey over the last three years, but I'm sure that
22 he and Bruce have not discussed either my testimony

1 or my status, or what subpoenas I may or may not have
2 gotten, or what happened in 1985. That is not the
3 sort of thing that Bruce and I or Bruce and my
4 husband would be discussing.

5 So I can't rule out the possibility they
6 talked about their feelings about these
7 investigations, but I think that would be expected.
8 I'm not going to rule that out, because I feel like
9 those conversations probably did occur. But as far
10 as a discussion about the substance of the
11 investigation, no, I'm sure Archie would not do
12 that. I don't think that occurred.

13 Q This will be the last question in this
14 series. Is there anything about the conversations
15 between Archie and Bruce Lindsey or any of the other
16 people mentioned today that you have not told us, or
17 that I have not asked you about?

18 A Well, to the extent that I know --

19 Q Of course.

20 A -- about any conversations they may have
21 had, I think that the conversations have been such
22 that I wouldn't probably recall them and neither

1 would he, because they were not substantive or
2 meaningful in any way. So I can't think of anything,
3 I certainly haven't -- if I haven't told you
4 something, it's because it hasn't been recalled or
5 remembered.

6 But like I said, I think if it were
7 significant or substantial or meaningful, material,
8 that I would remember them. So I have done the best
9 I can in trying to recall those occasions when I have
10 even seen Bruce where the subject may have come up.

11 Q Do you know or have you ever talked to, met
12 or heard of John Quinn, Jack Quinn?

13 A No. I have never met him and never talked
14 to him, and I just vaguely know he was; sometime he
15 was in the White House counsel's office. That is
16 just what I have learned basically from the hearings
17 or the newspaper.

18 Q Have you ever met Susan Thomases?

19 A I have never talked to Susan Thomases or
20 met her.

21 Q There is a "PB friend, New York lawyer."
22 Did any lawyers from New York that you know about

52

1 contact you or Archie, either mentioning Paul Barry's
2 name or Paul Begala's name?

3 A No. I have no idea who that reference is
4 to, because I'm certain nobody during that time
5 frame, of those people whose names or identities
6 appear in Harold Ickes's notes, I'm certain that no
7 "New York lawyer" contacted either one of us during
8 that period of time.

9 And I'm 99 percent certain that the "PB"
10 reference is to Paul Begala because I just don't
11 think that any of those people probably knew who Paul
12 Barry was at the time. I have assumed that PB is
13 Paul Begala, and so I don't know who the friend may
14 be or if it's a friend of his, or somebody else other
15 than PB.

16 MR. BRENNER: Beverly, at this point I'm
17 going to ask that we take another two-minute break.
18 We have come to a point where I'm going to want to
19 switch topics to some extent. I just want to take a
20 quick look at my notes.

21 (Recess.)

22 MR. BRENNER: Let's go back on the record.

1 BY MR. BRENNER:

2 Q I'm going to read you the opening couple
3 paragraphs from an article by an Associated Press
4 writer named Larry Margasak, dated February 9, 1996.

5 Did you ever speak with Mr. Margasak?

6 A No.

7 Q The body is "A former Arkansas securities
8 commissioner says she resisted efforts by a White
9 House aide and two men with Clinton Administration
10 connections to get her to make public statements
11 supporting the President and First Lady on
12 Whitewater. Beverly Bassett Schaffer said in an
13 interview Thursday that her response was 'no way, I
14 don't want to be drawn into the political response.'
15 She added 'I am sick of talking about Whitewater.'
16 The contacts with Schaffer were made around the time
17 a Whitewater prosecutor was appointed and they
18 tracked a strategy laid out at a January 7, 1994
19 White House meeting."

20 Are you familiar with what this is talking
21 about, this story?

22 A I have talked to Larry Margasak. He

1 talked -- he apparently took that from an article
2 that was written by an Associated Press reporter
3 based in Little Rock by the name of Bill Simmons.
4 And Bill Simmons did also write an article that some
5 of those comments were contained in, although not in
6 necessarily the same context, and I think Larry
7 Margasak's context is a little sensational.

8 And so actually, after I read the article,
9 I was a little annoyed by it and called Bill Simmons
10 with the AP here in Arkansas and complained to him
11 about it. And he agreed that basically Margasak took
12 what he put on the wire and kind of rewrote the
13 story. And the context in which my comments appear
14 in Bill Simmons's article are a little bit different
15 than that, but I will be happy to go over those
16 comments that are attributed to me and clarify what I
17 did say.

18 Do you want me to do that?

19 MR. COLE: Well, it seems to me we have
20 already covered this, and that the factual assertions
21 in the article are not in any way inconsistent with
22 what you have just spent an hour and a half

1 testifying about. And I really don't see the point
2 in going over this in great detail, Mark.

3 MR. BRENNER: Well, I don't need to go into
4 it in great detail. There are a few issues I would
5 like to talk about and it won't take more than a few
6 minutes.

7 MR. COLE: Let's try to move on. This is
8 really bogging us down, I think. Let's focus in on,
9 if you have specific things in the article you want
10 to focus in on, let's do it but not have the story
11 come out on what I think would be the fifth time on
12 the record of what context Mrs. Schaffer did or
13 didn't have in this time period. Is that fair?

14 MR. BRENNER: Fair enough.

15 THE WITNESS: Is the question -- what is
16 your specific question about those paragraphs, and I
17 will try to tell you what I think my state of mind
18 was or whatever.

19 BY MR. BRENNER:

20 Q Okay. "A former Arkansas securities
21 commissioner," you, "said she resisted efforts by a
22 White House aide and two men with Clinton

1 Administration connections."

2 Who exactly are they talking about?

3 A Well, I think what he is saying, what I
4 called told Bill Simmons was that now, I'm not sure
5 who he is referring to. I assume he is referring to
6 Skip Rutherford, Paul Begala and Bruce Lindsey. That
7 is what I think. And I think what I was telling you
8 earlier that I told Bill Simmons was that, when they
9 suggested the idea that a press conference might be a
10 good idea, that I was reluctant to do it, I
11 resisted. And I guess that is why he used the term
12 "resisted" and in fact, I was reluctant probably
13 rather than resistant, and I did -- was reluctant to
14 do that for a lot of reasons.

15 One, I didn't want to deal with the media
16 anymore, period. And two, I think I said earlier
17 today, I was concerned about becoming a part of what
18 might be viewed as a political response to this
19 problem, and I didn't want to be part of the
20 political response and have that diminish my
21 credibility in terms of just answering factual
22 questions about what happened while I was securities

1 commissioner.

2 So I had a couple of reasons for being
3 reluctant to do it and that is what I mean, that is
4 what I tried to convey to the reporter; not that I
5 resisted it because I felt it was improper or wrong
6 or there was something they wanted me to do that I
7 felt was wrong.

8 Q And none of these persons made an in-person
9 visit to you?

10 A No, nobody did.

11 Q And your real contact was through Archie;
12 is that correct?

13 A Well, the contact between, with Skip
14 Rutherford was through Archie, and I'm thinking that
15 maybe at some point, maybe even after Archie conveyed
16 to him I wasn't really interested, that I might have
17 seen Skip somewhere, or I don't know. I have a vague
18 memory of just saying something to Skip about how I
19 didn't want to deal with the press anymore, and I
20 just can't put that in a time frame or context.

21 But that conversation, the conversation was
22 initiated anyway, by Skip Rutherford with Archie.

1 And I believe Archie and I both had concerns about
2 this becoming a part of a political response and want
3 to go make sure that didn't occur. And I think he
4 conveyed that to Skip.

5 And somewhere along the lines, I think the
6 idea was abandoned from the other end, because nobody
7 came back and followed up and pushed the idea. I
8 have a vague memory of Archie telling me something
9 about how Skip had said they decided it wasn't a good
10 idea either.

11 Q Okay.

12 A It just went away.

13 Q On December 15, 1993, you called Bruce
14 Lindsey. Do you remember talking to Mr. Lindsey?

15 A No, I don't.

16 Q Do you know why you called him?

17 A Well, I have absolutely no idea. I would
18 have called him -- oh, now wait a second. Are you
19 sure he didn't call me?

20 Q He may have called you first, but this is
21 his call sheet and I believe that that means there
22 was a message -- and Lance could probably help me out

1 here -- from you to him stating both your work and
2 home numbers. And I say that because -- is that
3 accurate or is that his call out sheet?

4 MR. COLE: It appears to be a message sheet
5 that she called him at 11:17 a.m. and left those two
6 numbers. This is on December 15.

7 MR. BRENNER: 1993.

8 MR. COLE: What was the date of The New
9 York Times editorial?

10 THE WITNESS: It was around that time, I
11 think it may be the 20th, maybe it was the 20th. I
12 don't know, Mark. I have no idea.

13 BY MR. BRENNER:

14 Q Okay. Incidentally, on the same message
15 sheet is a call that Betsey Wright left for Bruce.
16 If you were here in person I would be able to show
17 you the document.

18 It says that "Ron Fournier has called her
19 regarding The New York Times article." Did
20 Mr. Fournier call you as well? Is that probably why
21 you called Bruce?

22 A I don't know. I don't remember talking to

60

1 Ron Fournier, but he may have. I really had about 50
2 different messages from different publications during
3 December of '93 and January of '94. So he very
4 likely could have been one of them. He was with AP
5 in Washington, I think. So he may well have called.

6 And my guess is that, if I called, rather
7 than making a return phone call, probably was about a
8 media inquiry and that is basically what I was doing
9 or about all I was doing in '93.

10 Q Okay. You stated earlier that you haven't
11 spoken with Ms. Wright since you left the securities
12 department; is that correct?

13 A I don't remember -- I don't think I have.
14 I don't remember talking to her during the campaign
15 and that would have been the only other time that she
16 was in Arkansas. So I don't think she and I talked.

17 MR. BRENNER: Beverly, at this point we are
18 going to take the last two-minute break, and then I'm
19 going to move on to a whole new topic.

20 (Recess.)

21 BY MR. BRENNER:

22 Q We are going to go back on the record.

1 This will be my last line of inquiry. I will try to
2 make it as brief as possible, but it will take a
3 little time to flesh it out.

4 Do you know who Dan Lasater is?

5 A Yes, I do.

6 Q How do you know that?

7 A Well, in my capacity as securities
8 commissioner for the state of Arkansas, I had several
9 contacts with Dan Lasater because he owned and was
10 employed by a brokerage firm that was regulated by
11 our department.

12 Q Did you know he was a friend of or knew
13 then-Governor Clinton?

14 A Did I know it at the time?

15 Q Yes.

16 A Oh, I don't think I knew it for a fact or
17 had any sense that they were personal friends.

18 Q As opposed to just general?

19 A Oh, just acquaintances or generally. I
20 don't think I had any impression at the time that he
21 was anything other than a political supporter. I
22 don't think I had any sense that there was a personal

1 relationship or a friendship, or a long-term
2 relationship of any kind. I don't really remember
3 thinking about it, to tell you the truth.

4 Q Have you ever met him personally?

5 A Dan Lasater?

6 Q Yes.

7 A Yes.

8 Q When was that?

9 A Well, I don't know the date or the year,
10 but I have had, you know, I have met Dan Lasater or
11 had encounters with him probably half a dozen times,
12 or did while I was securities commissioner.

13 Q Ever see him socially at parties or
14 political functions?

15 A No.

16 Q Have you ever, as head of the securities
17 commission, did you ever conduct any investigation or
18 make any inquiries into Mr. Lasater's activities or
19 the activities of Lasater & Company?

20 A Yes, our office did.

21 Q Do you recall what inquiries you made?

22 A Oh, I can't remember them all. We had -- I

1 can't remember -- they are all investigation files at
2 the securities department which are nonpublic so I
3 don't know how much I could literally say about those
4 without those files being subpoenaed and officially
5 part of your documentation. I want to be careful
6 that I don't violate the Arkansas law that clearly
7 makes investigation files nonpublic and punishes
8 employees for disclosing those. I don't want to do
9 that.

10 But I know that our office did examinations
11 on his firm, and in 1988, did an examination on a
12 company that he was no longer employed by but that
13 owed him, by way of a note, several million dollars.
14 And so over that period of time, I guess it's fair to
15 say that our office would have examined his firm
16 periodically. And in 1988, the company that he had
17 sold that still owed him several million dollars was
18 sanctioned by our office, heavily. And during that
19 particular proceeding, I probably, on at least one
20 occasion, either met with him or his lawyers.

21 MR. COLE: Beverly, could I interrupt you
22 for a moment. Because we have some time issues here

1 that it may be helpful and expedite this if we lay
2 some ground rules on time, because this, as you know,
3 the Resolution that we are operating under here
4 authorizes an investigation of the bond underwriting
5 activities of Lasater & Company for the ADFA,
6 Arkansas Development Finance Authority, and that
7 underwriting took place beginning in '83 and
8 continuing into '86.

9 MR. BRENNER: That is really the time frame
10 we should work under.

11 MR. COLE: That is what I was going to
12 say. I think there is a question -- and while
13 Mr. Brenner and I might differ as to exactly when we
14 draw the line, there is a question as to whether
15 events in '88, '87, that time period, are within our
16 Resolution. And while I don't have any objection to
17 getting out basic facts on the record, like when
18 Mr. Lasater's security license was revoked, I think a
19 lot of detailed testimony about net capital issues in
20 his firm in 1988 or something like that is probably
21 something we don't need to get into.

22 And I think what Mark is really interested

1 in is in the period before Mr. Lasater pleaded guilty
2 to federal drug charges in 1986, which of course was
3 widely publicized. I think he is interested in what
4 your office did or didn't do in this time period.

5 MR. BRENNER: Yes, I'm interested in the
6 time period prior to Mr. Lasater's conviction, and I
7 was trying to -- I will narrow the inquiry as to that
8 point.

9 BY MR. BRENNER:

10 Q Were you aware of any capital violations by
11 Collins, Locke & Lasater which was the predecessor
12 firm to Lasater & Company?

13 A I don't remember being personally aware of
14 it.

15 Q Had you been told generally about capital
16 violations by Collins, Locke & Lasater or Lasater &
17 Company?

18 A I don't think so. I mean, I don't know
19 what -- it wouldn't be brought to my attention for
20 any, for just general purposes. I don't think
21 anybody would -- I mean, I don't think I understand
22 your question. Was it brought to my attention by

1 whom?

2 Q I don't know who would bring it to your
3 attention. I'm trying to find that out. One of the
4 things that I'm trying to find out -- and I'm going
5 to narrow the question I asked at the beginning
6 because you spoke primarily of '88 -- but the real
7 question is, did you ever conduct any investigation
8 or make any inquiries into the activities of
9 Mr. Lasater or Lasater & Company between the time you
10 started at the securities commission and the time of
11 Mr. Lasater's conviction?

12 A I don't have any idea; I cannot remember
13 that, Mark. I mean, I don't know of an official
14 investigation or examination that might have occurred
15 during the calendar year 1985 or the first part of
16 '86. I don't remember when he was indicted, or pled
17 guilty to whatever he pled guilty to, sometime in
18 1986.

19 Q Would it have been likely that there would
20 be general inquiries, as there probably were of many
21 firms at the time?

22 A General inquiries by whom?

1 Q Inquiries by the securities commission or
2 other regulatory oversight bodies.

3 A You mean -- no, no, it would not. I just
4 didn't -- I don't understand your question. If our
5 office went out and did an examination, first of all,
6 basically net capital, financial net capital is
7 examined and overseen by the NASD.

8 Q Were you aware of any NASD investigations?

9 A NASD investigations, I don't recall. We
10 had a number of securities firms at the time that we
11 were looking at in addition to savings and loans
12 collapsing.

13 There is no way I could remember what the
14 NASD may have done to any one of them, the brokerage
15 firms in Arkansas, during that period of time.

16 Q Did you ever have any conversation with Sam
17 Bratton about Lasater & Company?

18 MR. COLE: Prior to 1986.

19 THE WITNESS: Prior to '86. No, I did
20 not. I don't remember -- not that I remember. I
21 don't remember having any conversations with Sam
22 about Dan Lasater or Lasater & Company from '83 to

1 '86.

2 MR. COLE: Let me give you a couple dates
3 from the documents we have, Beverly, just to help you
4 put the timing in context. Lasater was indicted in
5 October of 1986; entered his guilty plea of December
6 of 1986. But records that we have been provided by
7 the state securities department indicate that he
8 voluntarily terminated his securities registration on
9 October 27, '86 and then you formally entered an
10 order terminating his registration on August 27,
11 1987. If those dates help you.

12 MR. BRENNER: So if we could keep it
13 between the time you became securities commissioner,
14 and can we agree on January 1, 1987?

15 MR. COLE: That is fine.

16 BY MR. BRENNER:

17 Q You don't recall ever speaking to
18 Mr. Bratton about Lasater & Company and problems they
19 were having in 1986 with the National Association of
20 Securities Dealers and ASD?

21 A No.

22 Q To refresh your recollection, Mr. Bratton

1 remembers discussing with you problems that Lasater &
2 Company was having in 1986 with NASD and ASD.

3 A I don't remember that. I mean, you know,
4 if Sam has some sort of memo or some sort of specific
5 memory about it, I would be happy to look at it and
6 see if I recall that, but I don't remember being or
7 having that on the front burner during that period of
8 time.

9 Q Did you speak to Mr. Bratton about any NASD
10 investigation or inquiries about any of the Arkansas
11 firms?

12 A When?

13 Q Generally during that time period. I don't
14 need the specific firms, I'm trying to get the
15 general approach.

16 A Well, I don't think generally that Sam and
17 I would be talking about NASD examinations or
18 problems. There is nothing I could do about an NASD
19 inquiry or examination that would be going on with an
20 Arkansas firm. I don't really know what the need
21 would be for Sam to talk to me about an NASD
22 investigation or examination or whatever.

1 I don't really know why a registered person
2 or firm would complain to the governor's office or
3 say something to them that would prompt them to talk
4 to me about an examination or investigation being
5 conducted by a federal agency and not our office.

6 Q And just so the record is clear, that is
7 generally for any firm during your tenure at the
8 securities department?

9 A Well, so what is the question?

10 Q I just want to make sure it's clear that
11 this one isn't necessarily limited in scope in a way
12 that the others were. And that is that you don't
13 recall talking to Mr. Bratton to inform him about
14 problems firms were having with the NASD while you
15 were securities commissioner?

16 A Well, I don't know that I would call Sam or
17 talk to Sam about, I didn't have a general policy
18 about that, but I don't know that.

19 Why I would need to tell Sam about an NASD
20 matter. That is my problem here with all this, is
21 that I don't really know that I would necessarily
22 need to report an NASD examination or inquiry. I

1 can't say that I had a general policy to or not to.

2 When Sam and I discussed or regularly
3 touched base about things that the department was
4 working on or viewing, I can't say that those may not
5 have come up in those conversations. But to make a
6 special point of letting him know about it or telling
7 him about it, I don't think I would.

8 Q If you were going to take action, if you
9 were going to take some sort of regulatory action at
0 the securities department against a firm, would you
1 inform Mr. Bratton in advance?

2 A Not always. Possibly. I guess, I just
3 don't remember if I did one way or another. If there
4 was some, I don't remember thinking that I
5 necessarily would or should or did, and maybe I did
6 sometimes and maybe I didn't. I think it probably
7 depended on how much time I had and what the nature
8 of it was or whether it was, in my mind,
9 significant. If it was going to be newsworthy or
0 something like that, then I probably would.

1 Q Would it also depend on whether or not you
2 knew of an association between the governor and the

72

1 individuals, could that be one of the factors?

2 A Not necessarily, although if there was a
3 relationship and it was, or it seemed a possibility
4 that they might call the governor's office or try to
5 intervene with the governor's office, then it's
6 possible I would tell Sam in advance to head that off
7 or to head off any interference; that is possible.

8 Q I'm looking at a memo from you to Sam.
9 "Enclosed for your information is a note we received
0 today from Bob McHenry." Do you know Bob McHenry?

11 A He is a lawyer.

12 Q One of the attorneys for David Collins?

13 A Right.

14 Q Then it's got your bb on the bottom for
15 Beverly Bassett.

16 MR. COLE: What is the date?

17 BY MR. BRENNER:

18 Q The date, I believe, is 5/20 or 5/28;
19 actually 5/28/86. And it talks about -- and then
20 there is another memo from you on the same day, "Sam,
21 FYI. By the way, the complaint does not allege what
22 is stated in paragraph 1 of the Gazette article.

1 They must be referring to paragraph 14 of the
2 complaint. The SEC and," I believe that is "NASD did
3 not file complaints on this matter back in 1983. No
4 complaint was ever filed by the Arkansas Securities
5 Department, BB."

6 Do you remember anything about the suit
7 between Mr. Lasater and Mr. Collins?

8 A You know, this is really difficult, Mark,
9 because I can't even see the document that you have
10 got and so I don't know even the lawsuit you are
11 talking about. And of course, this was 10 or 11
12 years ago, so this is really difficult for me to be
13 helpful and accurate on something like that from so
14 long ago.

15 Q I understand.

16 A I think, it sounds to me like what I'm
17 doing is responding to a question that Sam maybe put
18 to me over the telephone.

19 MR. COLE: Based on a newspaper article, it
20 appears.

21 THE WITNESS: Right, and I don't -- based
22 on the time period, I know that we had, I think

1 during that period, a pending complaint against David
2 Collins over -- gosh, it's been 10 years, but some
3 problems in his brokerage firm. He and Dan Lasater
4 had been partners in Collins, Locke & Lasater and
5 they had a falling out. Instead of his own firm,
6 they continued to, as I recall -- I don't know, there
7 was animosity between the two and I just don't know
8 the full nature of it.

9 But because in any event, we did have a
10 complaint pending against David Collins or his firm,
11 Collins Securities Corporation, I think, during that
12 period of time. But I don't remember why Sam might
13 have asked about it, or why he might be interested,
14 or how Dan Lasater figures into that.

15 BY MR. BRENNER:

16 Q Did Sam ever ask you to keep an eye out or
17 give him a heads-up if Lasater & Company came up?

18 A No, no, not that I recall. And I guess it
19 would be helpful to me if I knew, in this short,
20 little memo that you just recited to me, if it's
21 going to Sam from me and if it's in response to a
22 question he may have asked about the complaint. Can

1 you tell?

2 Q It's not all together clear; that is why I
3 had asked you about it.

4 A It appears that maybe -- is there a copy of
5 the complaint attached?

6 Q Yes.

7 A There is. What is the date on the
8 complaint?

9 Q It's -- maybe Lance's eyes are better for
10 this than mine.

11 MR. COLE: It was filed, looks like May 13,
12 1986 at 3:12 p.m. in Chancery Court, Pulaski County,
13 Arkansas, David Collins versus Dan Lasater, Lasater
14 Company, Lasater, Inc., and Lasater Farms.

15 MR. BRENNER: A civil complaint, right?

16 MR. COLE: Right.

17 THE WITNESS: I don't remember the nature
18 of it, but I seem to recall it as something to do
19 with the breakup of the firm, was it not?

20 BY MR. BRENNER:

21 Q I was curious why you had sent that to the
22 governor's office.

1 A Well, that is my curiosity, too, and that
2 is why I'm saying I feel pretty certain that Sam
3 phoned me up and asked me about it, maybe, and that I
4 made an effort to find something out about it and
5 this is my response.

6 What you see is my response, but now I
7 cannot, in my mind think of what the question from
8 Sam could have been, or might have been. It might be
9 helpful to me if you would read what I wrote again.
10 Is it very long?

11 Q Yes, the basic answer is that, as you
12 understand it, it was probably a response to a
13 question Sam had asked you, to look into it?

14 A Do you know what paragraph 4 is in the
15 complaint?

16 Q Paragraph 14, I believe.

17 MR. COLE: It might be helpful actually to
18 look at The Arkansas Gazette article and see what the
19 allegation is because it seems to me -- I wasn't
20 there at the time and can't testify but -- that Sam
21 Bratton must have seen an article in the paper and
22 made an inquiry to you.

1 MR. BRENNER: George Bentley, Gazette staff
2 article, "David A. Collins of Little Rock, who said
3 he formerly owned half the stock in Lasater &
4 Company, a Little Rock investment firm, sued Monday
5 in Chancery Court alleging that the transaction by
6 his former partner, Dan Lasater, caused the state
7 securities department to accuse David Collins last
8 week of dishonest and unethical practices, and also
9 cost him his interest in the business."

10 THE WITNESS: Oh, okay. Well, I think that
11 must have been what it was. I sort of remember David
12 Collins trying to somehow bring the regulators into
13 the middle of his civil complaint with Dan Lasater,
14 and trying to -- I think there was some suggestion
15 maybe he was trying to extract a settlement out of
16 Lasater and maybe threatened him in the process that
17 if he didn't, that he would go to the newspaper and
18 file this suit and make these allegations, and that
19 could cause regulatory problems or something to that
20 effect. Something petty, something annoying,
21 something between the two of them that never got
22 resolved.

1 BY MR. BRENNER:

2 Q Did you inform the governor or any member
3 of his staff, including Sam, of any ongoing
4 investigations that may have transpired at the
5 securities department?

6 A No. You mean about Lasater?

7 Q Yes.

8 A I don't remember having conversation with
9 Sam, and Sam would have been the only one I would
10 have talked to about Lasater during this period of
11 time. Like I said, my memories of Lasater and my
12 dealings with him or any conversations with Sam were
13 not until the late '80s, and so that is why this
14 period of time just doesn't come back to me as
15 being -- I just don't recall.

16 Q Do you recall informing the governor's
17 office or Sam or the Governor himself of any ongoing
18 investigations? And I'm going to -- of the NASD, SEC
19 or any regulatory agency during the period of time
20 between when you became Arkansas securities
21 commissioner and the end of 1986?

22 A Yes, it's certainly possible. I just

1 don't, we had so many of them, that I can't rule that
2 out at all. I may have.

3 Q But you don't recall?

4 MR. COLE: May I ask one clarifying
5 question, Mark?

6 MR. BRENNER: Yes.

7 MR. COLE: In your role as state securities
8 commissioner, if there was a major Arkansas
9 securities firm, whether it was Lasater & Company or
10 any firm, that was having a serious net capital
11 problem, is it possible that you would advise
12 Mr. Bratton as the liaison with your department and
13 the governor's office, just to keep him informed of
14 something that could have broad financial
15 consequences in the state?

16 THE WITNESS: Yes, particularly if the net
17 capital area was such that a collapse could be
18 triggered and might ensue. And during 1985 and 1986,
19 we had a number of firms in that precarious
20 situation. In fact, Collins Securities Corporation
21 is one of them that went down in 1985. And we had
22 others. So that is possible that before they read it

1 in the newspaper that I would tell Sam, this firm is
2 history or going to be closed because people --
3 although people's accounts are insured by the
4 Securities Investment Protection Corporation, not
5 everybody is aware of that. And we always had people
6 calling our department when a securities firm closed,
7 asking about their money; and called the governor's
8 office, too.

9 So yes, I'm sure that on occasion, I talked
10 to them about that, or in the event that some action
11 we might take would have the same effect, basically
12 as talking to, basically called in and concern by the
13 investors or customers about the viability of the
14 brokerage firm. And you know, that is something that
15 I'm sure that I did, but I don't have a recollection
16 of which firms and what years and the extent of the
17 conversation, and that I just can't recall.

18 BY MR. BRENNER:

19 Q Are you familiar with a woman by the name
20 of Julia Hughes Jones?

21 A Yes.

22 Q How do you know Ms. Jones?

1 A Well, she was state auditor for several
2 years here in Arkansas.

3 Q Did you ever investigate Stephens, Inc.
4 based on any inquiry by Julia Hughes Jones?

5 MR. COLE: Before you answer, Beverly, what
6 is the relevance of that inquiry?

7 MR. BRENNER: I'm trying to inquire if they
8 did, did they inform the governor -- goes to regular
9 practice, did they inform the governor about ongoing
10 investigations.

11 MR. COLE: I think she already testified to
12 that and I think she has confidentiality concerns
13 about specific investigations involving specific
14 firms.

15 THE WITNESS: I do, as a matter of fact.
16 Like I said, the problem with me talking about those
17 specific investigations, and why I hedged a little
18 bit on Lasater & Company or the successor company, is
19 that those are investigations files and by law I, as
20 the commissioner, am not supposed to be disclosing
21 those. And that gives me great concern to confirm
22 yes, we did investigate this because then I have to

1 relay the results or the findings.

2 MR. COLE: I think with the exception of
3 the Lasater firm where we have specific Senate
4 authorization in the Resolution to make inquiries,
5 with respect to other firms other than Lasater we
6 should just speak in generalities and not get into
7 any details about any investigation that did or
8 didn't take place or any disciplinary action unless
9 it obviously was public action on the part of the
10 securities department.

11 Can you frame your questions in that way,
12 Mark? I'm confident you can.

13 BY MR. BRENNER:

14 Q Are you familiar with statements that
15 Ms. Jones made about tapes that she may have of
16 conversations between you and her?

17 A No.

18 Q Have you ever been approached by Ms. Jones
19 or somebody on behalf of Ms. Jones about the
20 statement that she has tapes of conversations you
21 have had with her?

22 A No.

1 MR. COLE: Do those tapes purport to relate
2 in some way to Lasater & Company, if you know?

3 MR. BRENNER: They purport to relate to
4 certain issues including Securities Bank of
5 Paragould, Marlon Jackson, and Stephens, Inc., and
6 some other things.

7 MR. COLE: Fortunately, if Ms. Schaffer
8 doesn't know about them, we don't have to argue about
9 whether they are or are not within the scope of the
10 resolution.

11 MR. BRENNER: I guess that is fortunate.
12 (Discussion off the record.)

13 BY MR. BRENNER:

14 Q On the record. Did you ever attend any
15 meetings with Dan Lasater or any member of Lasater &
16 Company, any employee, that you recall during the
17 time period from the time you started through the end
18 of 1986?

19 A Oh, now, I think the only Lasater employee
20 I can recall meeting with was possibly Michael Drake.

21 Q Do you recall the nature of the meetings
22 with Mr. Drake?

1 A Well, let's see. I can only remember, I
2 can vaguely remember that it seems like he had some
3 interest in seeing whether our office was going to
4 take some action or had taken some action against
5 David Collins at some point, which either was a
6 matter of public record already or, I don't know, or
7 we -- in any event I vaguely remember it having
8 something to do with this ongoing feud.

9 Q Have you talked to anyone since you left as
10 securities commissioner, with the exception of
11 reporters, about Lasater or ADFA or your oversight of
12 Lasater & Company?

13 A Wait a second. Have I talked to anyone
14 since I left the securities department?

15 Q Since, what was it, January 1, 1991?

16 A Right.

17 MR. COLE: Why don't we exclude from that
18 federal regulatory officials including independent
19 counsel representatives.

20 THE WITNESS: Since I have left, have I
21 talked to anybody about Dan Lasater or ADFA?

22 BY MR. BRENNER:

1 Q I will narrow the scope. Other than the
2 comments that we had mentioned earlier about comments
3 in passing, in other words did you have any
4 substantive conversations in any way about Lasater or
5 ADFA or your oversight of Lasater & Company with
6 anyone from the White House, anyone who may have been
7 a representative of someone who may have been at the
8 White House, any ever the people we already mentioned
9 this morning, the independent counsel, the Department
10 of Justice?

11 A Well, I really don't think the independent
12 counsel or their investigative personnel has asked me
13 about Lasater, and I don't think any other
14 investigative agencies have. But certainly reporters
15 have, since 1991, asked me, and I have discussed it
16 with them. And I think the campaign, the Clinton
17 campaign in 1992, may have asked me.

18 Q Do you know who for the Clinton campaign?

19 A Well, probably would have been Loretta
20 Lynch, but, you know, I want to say that that was
21 after The Los Angeles Times ran a story during the
22 campaign, '91 or '92, about Lasater. I'm thinking

1 that Loretta Lynch may have called, and she asked me
2 some questions about it. And I instructed her where
3 to go in the securities department to get orders and
4 copies of things like that.

5 So I'm thinking it was probably in response
6 to that. I don't think it was in advance of their
7 story, though. But I may have had some conversation
8 and/or contact with Loretta Lynch about it during the
9 '92 campaign.

10 Q Anyone else from the campaign?

11 A No. It would have been Loretta, because
12 she really is the only person that I talked to during
13 that period of time on, when issues came up about
14 either Madison Guaranty or Lasater or things that our
15 office had jurisdiction over, it would have been
16 Loretta.

17 Q How about subsequent to January 1, 1993,
18 after the inauguration, anyone from the White House
19 or as a representative of the White House?

20 A No. I don't remember any contact about
21 Lasater from the White House. I don't remember.

22 Q Obviously that includes people like John

1 Tisdale that we had spoken about earlier?

2 A Yes, but I don't think -- I just don't
3 think that John ever mentioned that to me. I don't
4 think. I don't think so. I mean, I guess it's
5 possible, but I don't remember talking to John about
6 that, or having them ask me about it, or having him
7 ask me about it or having any -- I wasn't being asked
8 about that during this time period.

9 And during the same time period I was
10 talking to John about Madison, I wasn't getting
11 questions from the press about Dan Lasater during
12 that period. So I can't think of any reason,
13 anything that would have prompted it.

14 MR. BRENNER: Beverly, you are not going to
15 believe this, I have no further questions.

16 MR. COLE: You will be probably be shocked
17 to learn I don't have any follow-up questions so we
18 can go off the record.

19 BY MR. BRENNER:

20 Q Beverly, I have one more question. The
21 last question I had asked you was essentially had you
22 talked to anyone about Lasater or your oversight of

1 Lasater & Company since you left as securities
2 commissioner, and earlier on, I had been asking those
3 questions. And I forgot to ask the follow-up
4 question which was, do you know if Archie had talked
5 to anybody about any of those topics?

6 A I don't think he talked to anybody about
7 Lasater & Company. I don't think anybody had asked
8 him about that, that I know of, during any of this
9 period of time. I mean, a lot of people have asked
10 him about Madison Guaranty, you know, but I don't
11 think he has had anybody even mention Lasater &
12 Company to him.

13 MR. BRENNER: Okay. Thank you.

14 (Discussion off the record.)

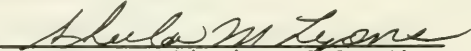
15 (Whereupon, at 11:39 a.m., the deposition
16 was concluded.)
17
18

19 -----
20 BEVERLY BASSETT SCHAFFER
21
22

CERTIFICATE OF NOTARY PUBLIC & REPORTER

89

I, SHEILA M. LYONS, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires AUGUST 31, 1997

**DEPOSITION OF WILLIAM B. FISHER
IN RE: S. RES. 120**

TUESDAY, APRIL 30, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of WILLIAM B. FISHER, called for examination pursuant to notice of deposition, at 9:10 a.m. in Room 640-A of the Hart Senate Office Building, before SHEILA M. LYONS, a Notary Public within and for the District of Columbia, when were present:

H. CHRISTOPHER BARTOLOMUCCI, Esq.
Majority Associate Special Counsel
GLENN F. IVEY, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

ALSO PRESENT: JIM PITTRIZZI

CONTENTS

WITNESS	EXAMINATION
William B. Fisher	
by Mr. Bartolomucci	3
by Mr. Ivey	63
by Mr. Bartolomucci	84
Errata	5621

P R O C E E D I N G S

Whereupon,

WILLIAM B. FISHER

was called as a witness and, having first been duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. BARTOLOMUCCI:

Q Good morning, Mr. Fisher.

A Good morning, Chris.

Q Before we begin the questioning, there is some preliminary information I need to impart to you.

A That is fine.

Q This is a deposition conducted pursuant to Senate Resolution 120, which establishes a Special Committee to conduct an investigation of Whitewater Development Corporation and related matters.

A Okay.

Q The deposition is in advance of public hearings at which you may be called to testify. As you know, the questions will be under oath. If you don't understand the question, let me know and I will

4

rephrase it, and let me know at any time if you want to take a break.

A That is fine.

Q The court reporter will prepare a transcript of the deposition which will be treated as confidential until the commencement of any hearings, and in the event you are called to testify, you will receive a copy of your deposition.

A That is fine. I would like to, if I do have to testify, I would like a copy of the transcript prior to me testifying.

Q I think our normal procedure is to give it to you four days in advance of the hearing.

A Fine.

Q In any event, you will have an opportunity to note whatever corrections are necessary --

A That is fine.

Q -- to the transcript. I take it you are not represented by counsel today?

A No, I am not.

Q But you are aware that you had that right if you wanted to?

1 A I am, and I chose not to.

2 Q Just so you know, it's our practice to note
3 for the record objections to the form of question and
4 to permit objections on the ground of privilege,
5 length or scope. The Committee Chairman ultimately
6 rules on any objections.

7 A That is fine.

8 Q Okay. If you would please give us your
9 full name for the record.

10 A William Burns Fisher.

11 Q Do you want to spell Burns for us?

12 A B-u-r-n-s.

13

14

15 Q And your current work address?

16 A 3309 East Kings Highway, Paragould,
17 Arkansas 72451.

18 Q And if you would, give us just a very brief
19 sketch of your educational background.

20 A My undergraduate work was done at Davidson
21 College in North Carolina; graduate, business degree
22 at the University of Arkansas at Fayetteville;

1 completed graduate school in banking at Rutgers
2 University and the Stanford Executive Program at Palo
3 Alto, California. I have had numerous continuing
4 education classes and schools in banking and seminars
5 constantly in my business career.

6 Q If you would, tell us your present
7 occupation.

8 A My present occupation is president and
9 chief executive officer of Redbook Floral Services,
10 which is a flower and international flower by wire
11 service.

12 Q I may need to talk to you about Mother's
13 Day coming up.

14 A We will let you send a wire order to us.
15 Send it to your local florist and we will place it
16 for you.

17 Q If you would, Mr. Fisher, give us a sense
18 of your banking experience.

19 A My banking experience began in 19 -- I
20 believe 1971. I was in banking from 1971 until 1985,
21 except for about a year and a half when I was
22 president of a life insurance company. I started out

1 in the operations area of the bank, filing checks in
2 the bookkeeping department, working through the
3 operation areas; and have served in just about every
4 capacity of the bank, as cashier of the bank, before
5 moving over to the lending side of the bank.

6 I have been an investment officer, a trust
7 officer, a senior lending officer, an EBP and
8 president. I was at Security Bank for 10 years,
9 left, was president of a community bank in central
10 Arkansas for three years, and at Security Bank for
11 seven years as president and CEO.

12 Q What years were you at the Security Bank of
13 Paragould?

14 A Security Bank from 1971, and that might be
15 '70, Chris, but I think '71, '70 or '71 until 19 --
16 through 1980; came back in June or July, I'm not sure
17 which, of 1985 and left in May of '92.

18 Q Okay. So you came back to the bank in June
19 or July of 1985?

20 A That's correct.

21 Q And left what year?

22 A 1985 is when, June or July of 1985.

1 Q Oh, that is when you left the bank?

2 A No, that is when I came back.

3 Q And then subsequent to that, you left what
4 year?

5 A I left in 1980.

6 Q I'm trying to figure out when you left
7 after 1985.

8 A 1992.

9 Q Okay. So during that period from 1985 to
10 1992, what was your position at the Security Bank of
11 Paragould?

12 A President, CEO.

13 Q Do you know Marlin Jackson?

14 A Yes, I do.

15 Q How do you know him?

16 A I have known him for over 40 years. I knew
17 him when I was in college back in the mid-'50s. I
18 was running a general insurance agency or working
19 with a man that owned a general insurance agency in
20 Paragould in the late '60s. I knew him when he moved
21 to Paragould in the '60s, with Security Bank.

22 He employed me with Security Bank when I

1 went to work for him in 1971, I think. I have stayed
2 in contact with him since that time. I'm a family
3 friend as well as a business acquaintance.

4 He put the bank in trust when he became
5 bank commissioner sometime in the '80s. I was a
6 trustee of that trust during that period of time and
7 served as a trustee until the trust was dissolved
8 sometime in the '90s, and still am in contact with
9 him on occasion now.

10 Q Do you know Frank Oldham?

11 A Yes, I do. I have known Frank since the
12 mid-'70s. He was a consultant for Security Bank at
13 the same time that he was Dean of Continuing
14 Education at Arkansas State University. He worked as
15 a consultant for the bank until I left. He was
16 still, I think, a consultant when I left in 1980.

17 The two of us developed an incentive
18 compensation program and traveled the United States
19 for the American Bankers Association presenting
20 programs. Frank was chairman of -- I think Frank was
21 president and CEO when I came back to the bank, and
22 resigned those positions to become chairman and CEO

10

1 of the bank and the holding company.

2 I have kept in contact with him. I talk
3 with him probably every couple weeks and see him on a
4 monthly basis.

5 Q Lastly, do you know Charles Campbell?

6 A Yes, I do. Charles Campbell, I was
7 acquainted with Charles when he was a lending officer
8 at Citizens Bank in Jonesboro. I think, and I'm not
9 sure, but I think we hired Charles at Security Bank
10 when I was there in the late '70s, in the lending
11 area of the bank. He was with the bank when I
12 returned in 1985, but he was serving in the function
13 of the operations area of the bank rather than the
14 lending area at that time.

15 I have not talked to Charles Campbell in
16 probably, I don't know, gosh, four, five years,
17 probably.

18 Q Now, during the time you were at the
19 Security Bank in this period, '85 to '92, Bill
20 Clinton was the governor; right?

21 A Yes, he was.

22 Q And you obviously would have been aware of

1 that fact?

2 A Yes.

3 Q Do you know Mr. Clinton?

4 A Yes, I do.

5 Q How do you know him?

6 A I met the governor back in, I think the
7 late '70s when I was chairman of the Arkansas School
8 Boards Association. And the School Boards
9 Association was involved in various educational
10 matters and I had an opportunity to or an occasion to
11 talk with the governor regarding education matters at
12 that time.

13 Q Do you have any contact with him after that
14 period?

15 A Yes. I continued to be involved in
16 education. I talked to him on education matters from
17 time to time. And when I say from time to time, that
18 may be once a year, it could have been two or three
19 times in a year. When he came to industrial
20 dedications in the Paragould area, I had an
21 opportunity to talk with him just like everybody else
22 did at that time.

1 But my contacts would have been -- I don't
2 think I ever -- in fact, I can't remember ever
3 talking to him about a banking matter. Mine would
4 have been related to education or industrial
5 development.

6 Q Are you social acquaintances at all?

7 A No, I'm not.

8 Q Do you also know Mrs. Clinton?

9 A Yes, I do.

10 Q How do you know her?

11 A Through education. She was actively
12 involved in education in the state of Arkansas, and I
13 had an opportunity to meet and talk with her on
14 different occasions regarding educational matters.

15 Q Have you had any contact with the Clintons
16 since they came to Washington, or since the '92
17 presidential campaign?

18 A I have seen -- yes. I was in Washington
19 for an American Hospital Association meeting in --
20 gosh, let's see, Chris -- I think 1994; I'm not
21 sure. I think it's been two years ago. And myself,
22 the hospital administrator, and two other board

1 members saw the President when he made a presentation
2 to the American Hospital Association, and then had
3 lunch at the White House with someone that we knew.
4 And I had an opportunity to spend probably 10 minutes
5 with the President after lunch.

6 Q I take it on that occasion you didn't talk
7 to him about anything dealing with the Security Bank
8 or Whitewater loans?

9 A No, we talked about education and health
10 care.

11 Q Okay.

12 A It was just a brief conversation. I'd say
13 maybe 10 minutes.

14 Q Do you know either Jim or Susan McDougal?

15 A No, I do not.

16 Q So then during the '80s, you would have
17 been unaware of any business dealings that the
18 McDougals and the business dealings that the
19 McDougals and Clintons would have had?

20 A Yes.

21 Q And you were unaware of the Whitewater real
22 estate deal during the 1980s?

1 A I had never heard of it.

2 Q I want to refer you to the documents I sent
3 you. In the lower right-hand corner, I marked them
4 with -- I numbered them in green ink.

5 A Yes, I see that.

6 Q That may be the easiest way for me to
7 identify them.

8 A That is fine.

9 Q Document number 1, which I will describe
10 for the record, is a Security Bank loan application
11 dated 9/30/83. It reflects Governor Clinton's
12 \$20,800 loan from the Security Bank of Paragould.
13 Now, I take it you weren't at the bank when this
14 document was executed?

15 A No, I was not.

16 Q Have you ever seen it before I sent it to
17 you?

18 A I don't remember ever seeing it before I
19 received it from you. And I possibly could have seen
20 it in the '80s on a renewal on the loan, but I don't
21 remember the document at all.

22 Q Do you see anything remarkable or unusual

1 about the loan application? Take your time to look
2 it over, if you haven't already.

3 A Give me a minute to look at it because I
4 had not had an opportunity to review the things in
5 detail.

6 Q Sure.

7 A No, it appears to be a standard loan
8 application and a copy of a promissory note that is
9 executed by the -- the note executed by the
10 governor. The only thing that would be unusual, if
11 anything would be, is that there is no signature on
12 the loan application. That could be because the loan
13 officer, I'm assuming, probably took this thing over
14 the phone and Governor Clinton was not available to
15 sign it, and the note then was mailed to him.

16 But that would be the only thing that I see
17 that would be unusual at all.

18 Q You wouldn't regard the absence of that
19 signature as significant, though?

20 A No, I would not. That would be -- that
21 could occur on any loan application that the loan
22 officer took by phone and felt comfortable in making

1 the loan, and I noticed that, CDC are the initials
2 down there, so Charles Campbell would have made that
3 loan. And he was a senior lending officer. And an
4 unsecured loan of that amount would not have been
5 unusual at all.

6 Q Was your testimony there that an unsecured
7 loan in this amount would not have been unusual?

8 A No, it would not have been, not as far as a
9 senior lending officer. I'm not sure what the
10 lending limits on unsecured loans for the senior
11 lending officer would have been at that time, but I
12 would suspect at least \$100,000.

13 Q Now, on the second page, down at the bottom
14 left-hand corner, there is a box?

15 A Yes.

16 Q It says "documents required" and I notice
17 financial statement is checked. Meaning, I assume,
18 that a financial statement was required in connection
19 with this?

20 A That's correct. That is what it would
21 mean.

22 Q Was there a bank policy which would have

1 required a financial statement for a loan of this
2 type?

3 A Chris, I would say there was. I would have
4 to go back and look at the bank policy at that time,
5 but it would be normal practice on an unsecured loan
6 for a financial statement to be available. It would
7 not be a requirement, but it would be a normal
8 practice.

9 Q Okay. Referring you to document number
10 2 --

11 A Okay.

12 Q -- which I will describe for the record.
13 It's a personal financial statement of Bill and
14 Hillary Rodham Clinton, dated April 25, 1983. It's
15 addressed to the bank of Cherry Valley; a two-page
16 document. We understand this to be a financial
17 statement that the Clintons tendered in connection
18 with the loan application that we were just looking
19 at. Okay.

20 Now, given that this document is addressed
21 to the bank of Cherry Valley but was submitted to the
22 Security Bank, would that have been unusual?

18

1 A It would not have been unusual. The only
2 thing in looking at the document that I see is
3 missing is there is no signature on the document, and
4 in normal practices, usually the person who made the
5 financial statement would sign that financial
6 statement someplace.

7 So that is the only thing that I see, and
8 that is, again, that is not the case all the time,
9 but in normal practices, I would think usually the
10 financial statement would be signed.

11 Q It could be that the version you got was
12 cut off at the bottom. I believe Bill Clinton did
13 sign the second page.

14 A Okay. I couldn't see it on my copy. So
15 no, it would not be unusual to take a financial
16 statement that was going to a different financial
17 institution.

18 Q How about the fact that it's dated April of
19 '83 and was apparently submitted in connection with
20 a September '83 loan?

21 A We would have -- when I was there, we would
22 have taken a financial statement within a one-year

1 period of a loan. Again, I don't know the practice
2 in '83, but after that, that would not have had a
3 detrimental effect on the loan.

4 Q Now, did you ever become aware of the
5 purpose of this loan, the reason it was taken out?

6 A No.

7 Q Just referring you to documents 3 and 4.

8 A Okay.

9 Q Number 3 for the record is a letter from
10 Charles Campbell to Governor Bill Clinton dated
11 September 30, '83.

12 A Right.

13 Q And document 4 is a check from the Security
14 Bank payable to Madison Bank & Trust in the amount of
15 \$20,800 dated September 30, '83. Do these --

16 A I don't remember ever seeing either of
17 these documents.

18 Q Do they refresh your recollection at all
19 about what the purpose of the loan was?

20 A No, because I had no idea what the purpose
21 of the loan was. And I can't remember ever seeing
22 either one of these documents.

20

1 Q Did you ever come to learn that the loan
2 was related somehow to Whitewater?

3 A When I read it in the paper.

4 Q And that would -- what year would that have
5 been?

6 A Sometime in the '90s.

7 Q Let's turn to documents 5 and 6.

8 A Okay.

9 Q Number 5 bears a Bates number which is DKRT
10 400142. It's a notice of past due loan payment dated
11 October 5, '84. And then document 6 is also a notice
12 of past due loan payment dated October 15, '84. That
13 one has Bates number DKRT 700388.

14 A I have both of them.

15 Q Now, if I'm reading these correctly, these
16 seem to reflect that, as of early and mid-October,
17 the loan was past due. The loan application
18 indicates that it was originally to mature on
19 September 30, 1984.

20 My question to you is, what would have been
21 the policy at the bank with respect to a loan
22 becoming past due, what procedure would have been

1 employed?

2 A Chris, I'm not sure at that time. I can
3 tell you what I think would have happened, and that
4 would have been, the computer would have spit out a
5 loan due notice that went to the borrower, prior to
6 the note coming due. And I don't know whether that
7 is 30 days or 15 days or what, but sometime prior to
8 it.

9 And then if the loan was not paid or no
10 arrangements had been made for an extension of the
11 note, a past due notice would have been kicked out by
12 the computer, and that would have been forwarded to
13 the borrower. And these both look like computer
14 generated normal past due notices.

15 Q After a past due notice was sent out, would
16 there have been another time by which some further
17 action would have to be taken?

18 A There would have been, if there had been no
19 response from the borrower, the borrower would either
20 have been contacted or should have been contacted by
21 letter or by phone by the lending officer that was
22 responsible for the loan. And it looks like -- I'm

22

1 looking at these two notices -- one dated the 5th and
2 one dated the 15th; it appears that in that period of
3 time that there was a payment made on that loan,
4 because the amounts have changed.

5 So I'm assuming that a principal payment
6 was made, reducing that balance from \$2368 0.24 to
7 \$18917.59. And it doesn't indicate on here whether
8 the interest was paid or not, but I would suspect
9 that it is, because it was normal practice that a
10 note was not renewed without at least an interest
11 payment being made. And if there was no interest
12 payment made and a note was renewed, that should have
13 been noted in the bank's records.

14 Q Well, just so you know, it's our
15 understanding based upon a loan history that there
16 was a payment in the period between these two
17 notices, on October 9 --

18 A Okay.

19 Q -- a payment on principal of \$2000 and
20 interest of \$2811.

21 A Okay. If they would have gotten those, if
22 they made those payments and not have signed an

1 extension agreement, the second notice would have
2 gone out because the loan would still be showing past
3 due, because no extension to change the terms of the
4 loan had taken place.

5 Q Okay. Let's look at document number 7,
6 which actually reproduces two extension agreements.

7 A Okay.

8 Q Let's look at the one on the bottom for
9 now. And for the record, this is a Security Bank
10 form, extension agreement. It has a Security Bank
11 number on it of 4428. I take it this looks like a
12 standard Security Bank extension agreement?

13 A Yes, it does.

14 Q And it was apparently approved by
15 Mr. Oldham?

16 A Looks like that was approved by Oldham and
17 was, extension agreement was dated -- I can't tell
18 from the stamp on there when it was dated, but it
19 looks like it was showing the loan, it wasn't loaded
20 on the computer until December 27, 1948.

21 Q You are referring to the notation "loaded
22 12/27/84"?

1 A Yes. So it appears it was dated September
2 30, '84 but that it was not loaded onto the computer
3 until December of '84. And I have no idea why you
4 would have that time period, unless the interest was
5 not received at the time of the extension agreement.

6 If the interest was not received during the
7 time of the extension agreement, they would not have
8 loaded it onto the computer until that interest was
9 received.

10 Q Now, the two past due notices we were
11 looking at were dated 10/5 and 10/15 respectively.
12 So if this extension agreement had been executed on
13 September 30, prior to those dates, would those
14 notices have gone out?

15 A Yes, they would have. If no extension
16 agreement was signed, they would still show past due
17 as far as the bank records were concerned.

18 Q I guess what I'm getting at, in light of
19 these past due notices, is it safe to say that this
20 date on the extension agreement, 9/30/84, is not when
21 the document was completed?

22 A No, that would not be correct. The

1 document could have been completed on 9/30/84 but, no
2 interest having been paid, the past due notices would
3 have still gone out, because as far as the bank was
4 concerned, the note would have still have been past
5 due until that interest was received or until it was
6 loaded on the computer.

7 If the interest wasn't received and they
8 loaded -- if the interest wasn't received and they
9 loaded it on the computer, it would -- the past due
10 notices would not have gone out, but until they load
11 it on the computer, it's still going to generate past
12 due notices up until the time it's loaded. So up
13 until December of 1984, I would suspect there are
14 other past due notices in addition to these two that
15 continued to come out.

16 Chris, it would not be -- there would not
17 be anything unusual for me to, or for a customer to
18 sign an extension agreement today and not pay the
19 interest until next week. And if that occurred, that
20 loan would still be considered past due even though
21 the extension agreement was executed, if it had not
22 been loaded onto the computer.

1 Q Would it have been the bank's practice to
2 load it into the computer soon after the form was
3 completed?

4 A No, it would not have been the practice to
5 load it until after the interest on the note had been
6 paid, or until a loan officer said we are going to
7 extend this loan without an interest payment. And if
8 that occurred, that would have been noted in the bank
9 records as an exception to bank practice.

10 Q So it's your testimony that you can't
11 necessarily tell from the loaded date when this form
12 would have been completed?

13 A No, you cannot.

14 Q Turning your attention to document number
15 8.

16 A Let me go back. That would be the same --
17 I'm looking at the document above, too. And it's
18 showing at the top of that page, that is looking at a
19 renewal note, looks like 9/30/85 with \$13,000. And
20 the note is -- the extension agreement is dated
21 October 11, but it wasn't loaded on the computer
22 until November 13, so it would have still showed past

1 due from October 11 to November 13, even though it
2 was executed back in October.

3 Q That actually wasn't the document that I
4 was going to turn to next, but it's fine.

5 A Well, when I looked at that, I was looking
6 at the one below, but when I noticed that one above,
7 that actually is a similar occurrence; what happened
8 on it to what happened to the one below, and looks
9 like Mr. Gramling handled that extension.

10 Q That is Steve Gramling?

11 A Yes.

12 Q Do those appear to be his initials on the
13 "approved by" line?

14 A I have no idea.

15 Q You are inferring it's Steve Gramling from
16 the initials SG in the upper right-hand corner?

17 A Yes, it says "dealer, SG," that is why I
18 would assume it is Steve Gramling; that is the only
19 SG initials I can remember being at the bank at that
20 time, and he was the senior lending officer at that
21 time.

22 Q But the cursive initials on the "approved

1 by" line?

2 A I'm not --

3 Q You can't identify those?

4 A I cannot.

5 Q All right. Now, document 8 that I was
6 trying to get to was the handwritten letter.

7 A Yes.

8 Q We understand this to be a letter written
9 by Hillary Clinton to Jim McDougal. It's document
10 DKRT 100735.

11 A Okay.

12 Q The second paragraph says "I asked Security
13 Bank to extend the note but apparently my request
14 fell on deaf ears." Would you know anything about
15 that?

16 A No, I would not. In fact I don't even
17 know -- appears from the letter -- it doesn't even
18 tell what year it is. I do see, upper right-hand
19 corner, 1984. I don't know if that is with the
20 letter or whether someone else put that on there, but
21 I have never seen that letter before.

22 Q Now, in light of this letter, if everything

1 in it is as it appears to be, is it safe to say that
2 1984 extension wasn't executed on September 30 of
3 '84?

4 A I have no idea.

5 Q If you would please --

6 A I would say that it looks -- again I have
7 no idea, but I can't imagine Dr. Oldham doing an
8 extension at a date different than what he has out
9 there, but again, I don't have any idea at all.

10 Q Well, while we are on it, is it possible
11 that Mr. Oldham dated it 9/30/84 and then had it sent
12 to the borrower?

13 A It certainly is possible.

14 Q Then it could have come back in on some
15 date prior to the loaded date?

16 A Yes, that is possible.

17 Q Okay. Let's look at document number 9,
18 which is DKSJN 001244, from Marlin Jackson to Charles
19 Campbell, dated November 1 '85.

20 A Yes.

21 Q Would you take just a moment and read this
22 through.

1 A Okay.

2 Q This letter has occasioned some comment by
3 virtue of the fact that it was written on Arkansas
4 State Bank Department stationery and Mr. Jackson
5 signs it above the title, Bank Commissioner.

6 A Yes.

7 Q Do you think it was appropriate for
8 Mr. Jackson to write a letter like this on official
9 stationery?

10 A No, I do not, but knowing Marlin, I would
11 suspect that -- if you know him and his dictation, he
12 has the tendency to be long-winded on dictaphones and
13 I could see him dictating to a secretary with a
14 portion of that being personal mail and a portion of
15 it bank department mail.

16 And knowing his personality, when something
17 came on his desk, his signing that letter without
18 even paying any attention to it being on bank
19 department stationery, but no, I don't think it's
20 appropriate going out on bank department stationery.

21 Q As far as his dictation practices go, are
22 you speculating here about what might have happened,

1 or do you actually know what the circumstances
2 surrounding this letter are?

3 A I have no idea what the circumstances
4 were.

5 Q Okay.

6 A I'm only speculating.

7 Q Understood. Now, you would have been back
8 at Security Bank of Paragould by this time, by
9 November of '85?

10 A Yes, I would have.

11 Q So is it safe to assume from this letter
12 that you weren't involved with or handling Governor
13 Clinton's loan at this point?

14 A No, I was not. When I came back to the
15 bank, I was not actively involved in any lending
16 activities at all. I assisted lending officers, when
17 they needed me to, in contacting customers that they
18 might want me to contact for one reason or another.
19 But as far as actually making loans, I did not do
20 that.

21 And when I look at this, when I look at
22 Mr. Charles Campbell, vice president, I think -- and

1 again I'm not sure, but I think that Charles Campbell
2 was in the operations area of the bank at that time
3 and not in the lending area.

4 Now, the letter might have gone to him
5 because he was in the lending area and handled the
6 loan, it appears, when it was originally made, but I
7 don't believe at this time that he was an active
8 lender in the bank.

9 Q What would be the significance of the fact
10 if he were in operations as opposed to lending?

11 A Nothing, other than he would normally not
12 be handling loans. He might still have lending
13 authority, but he normally would, on a day-to-day
14 basis, not be involved in the lending functions of
15 the bank. And again, I can't tell you for sure the
16 date, but I think when I came back to the bank in
17 June or July that he was in the operations area, but
18 it might have been after that that he moved to it.

19 Q When did you first have some involvement in
20 Governor Clinton's loan?

21 A Well, let's see if I can look through these
22 documents and I can tell you. My first involvement

1 would have been -- I never talked to the governor
2 regarding the loan at all. I talked to
3 Mrs. Clinton --

4 Q Do you have an independent memory of the
5 documents; that is to say, a memory apart from what
6 the documents indicate to you?

7 A Yes, I remember talking to Mrs. Clinton and
8 it looks like that was in, the letter is showing
9 March of '87, but it could have been prior to that.
10 Sometime in either '86 or '87, the loan became past
11 due.

12 Do you want me to tell you without looking
13 through the document what it is I remember?

14 Q Yes, let's do it that way first.

15 A Okay. '86 or '87, I'm not sure when, the
16 loan came past due. I was not aware the loan was
17 past due, but at that time, the senior lending
18 officer, Steve Gramling, was handling the loan. And
19 the best I remember is that he came to me and said
20 that he had not been able to get any response from
21 the governor regarding the loan, asked me if I could
22 give any assistance at all. He gave me the loan

1 documents at that time, or gave me the loan itself,
2 the note.

3 I called the governor's office. I'm not
4 sure who I talked to there. I did not talk to him,
5 but I ended up receiving a call sometime after that
6 from Mrs. Clinton.

7 And Hillary at that time said that, wanted
8 to know what I had wanted with the governor. And I
9 told her I was calling regarding the note that was
10 past due, and she made some comment regarding, well,
11 I said that papers had been mailed from the loan
12 officer regarding an extension or payment of the
13 need. She said that that was probably laying on the
14 governor's desk, that Bill didn't handle those
15 matters, and that everything needed to be directed to
16 her, and a notation needed to be made that she
17 handled all those business matters, and that
18 correspondence regarding it should be addressed to
19 her in the future and not to him.

20 And as a result of that, I did talk to her
21 regarding the renewal of the loan. She said it was
22 not convenient for them to, or maybe I in the

1 conversation asked if the payments, the way it was
2 set up was convenient -- I'm not sure whether I
3 suggested it or she suggested it -- but anyway, we
4 changed the note from a date note to an installment
5 note based on monthly payments. And those monthly
6 payments were in an amount that she told me they
7 would be able to make. And I gave all that
8 information to Mr. Gramling.

9 He or the loan secretary, one, he gave it
10 to a loan secretary to prepare the documents and I
11 forwarded those documents to Mrs. Clinton with
12 correspondence. And that is, after that, that is the
13 last that I heard about the loan.

14 Q How long is this period of time that you
15 are describing between the time Mr. Gramling came to
16 you --

17 A I'm not sure; it could have been two weeks,
18 it could have been four months. It might be in these
19 documents, I'm not sure but I haven't looked back
20 there, but I'm not sure of the time.

21 Chris, you are taxing my memory. That is
22 eight years ago. But I do remember the conversation

1 with Mrs. Clinton.

2 Q Well, let's look at some of the documents
3 and see if we can fill in the gaps. Look at document
4 13.

5 A Okay. Just a minute.

6 Q It's a message slip.

7 A Okay.

8 Q And this is document DKRT 11000402, and
9 appears to be a message slip to Hillary Rodham
10 Clinton from Marlin Jackson, dated March 2, '87; and
11 it shows your name and phone number.

12 Do you have any memory of Mrs. Clinton
13 mentioning Marlin Jackson to you in connection with
14 the conversation?

15 A None at all.

16 Q Is it possible that the sequence of events
17 that you were just describing to me occurred in March
18 of '87?

19 A Restate the question, Chris, I'm not clear.

20 Q The sequence of events that you were
21 describing to me when Mr. Gramling came to you and
22 you called the governor's office --

- 1 A Could it have happened in March of '87?
2 Q Right.
3 A Certainly it could have.
4 Q Let's look at the next document, document
5 14, Bates number DKRT 200782.
6 A Okay.
7 Q This looks like handwritten notes on some
8 form that says "Hillary Rodham Clinton" at the top?
9 A Right.
10 Q Dated 3/4/87?
11 A Yes.
12 Q Your name also appears on this?
13 A Yes.
14 Q Do you think these are notations of the
15 conversation you had with her?
16 A I don't have any idea. I don't remember
17 the document. But evidently it was addressed to me
18 and dated 3/4, so I would feel that I did receive the
19 document. Again, I don't remember it.
20 Q I wasn't suggesting or even asking whether
21 you had received this, but the document reflects the
22 amount of the original note --
-

- 1 A Right, yes, it does.
2 Q -- and the balance?
3 A Are those the sorts of matters that you
4 discussed with her?
5 A Chris, I would say that I did, because we,
6 when I talked about the renewal of the note -- I
7 can't remember -- but she very easily could have
8 said, well, what was the original amount of the note,
9 or what was the last amount of the note, or what the
10 balance was. And I would have given her all that
11 information, because my conversation would have been
12 that the note is past due, that no, nothing has been
13 done on it, that we were going to have to take some
14 action; and her explanation to me was that is
15 probably laying on Bill's desk, he doesn't pay any
16 attention to things like that. All the papers and
17 documents need to be sent to me.
18 Q Now, did you just have the one conversation
19 with her, or were there more than one?
20 A I don't remember any other conversations
21 other than that one. I did correspond with her.
22 Q Right, but in terms of over the phone --

1 A I think that was the only conversation, to
2 the best that I can remember.

3 Q And you never met with her?

4 A No, I did not.

5 Q Okay. Let's look at document 15. It's
6 DKRT 700596. It appears to be a letter you wrote to
7 Mrs. Clinton, dated March 5, '87.

8 A Yes, and that is my signature.

9 Q And it says that you are enclosing a new
10 note and that is a reference to the paid note. So
11 that is consistent with your memory, isn't it, that
12 you replaced the old note with a new one?

13 A Right. And the new note, if you will look
14 in the third paragraph, we changed that note to an
15 installment note with payments of \$285.13 a month and
16 that was, that figure, again the best I can remember,
17 we came up with that figure because that is what she
18 said that she could pay on a monthly basis.

19 Q So now it's pretty safe to say then that
20 the conversation you had with Mrs. Clinton was in
21 1987 --

22 A Yes.

1 Q -- as opposed to '86?

2 A Yes.

3 Q So your memory of events was from this
4 March period?

5 A Yes. Looks like from here, when I told you
6 at first it was '86 or '87 because it would have been
7 sometime after the note came due and I think that
8 that note came due -- I'll go back and look -- either
9 September or October, so Mr. Gramling probably had,
10 it appears, had waited for three or four months to
11 get some action on the note before he contacted me.
12 And that would not have been unusual because, again,
13 I was not involved in, directly involved in the
14 lending function.

15 Q Well, now, if the note was due in
16 September, then you are actually talking almost, like
17 five, six months at this point, aren't you?

18 A That's correct. That note was due
19 September 30.

20 Q I guess I would refer you walk to document
21 7?

22 A Okay.

1 Q -- the extension agreement at the top --

2 A Showing September 30.

3 Q Of '86.

4 A Yes, the note would have been due on

5 September 30.

6 Q So how soon before your conversation with
7 Mrs. Clinton and these letters was your conversation
8 with Mr. Gramling?

9 A It would have been, I can't tell you
10 exactly, but it would have been close to that date
11 because when Mr. Gramling would have contacted me and
12 I told him that I would make contact with the
13 governor. I would have tried at that time to start
14 contacting the governor, and I can't tell you whether
15 that is a week ahead of then or two weeks or three
16 weeks, or how many times I called, but I don't
17 remember calling the governor's office but one time.
18 And talking with, again, someone there.

19 I did not talk with the governor and I
20 don't know how many days after I talked with them
21 that Mrs. Clinton called. But I would think that it
22 would not have been very long, because if there would

42

1 have been a time period that would have elapsed in
2 there, I would have made a return phone call or a
3 follow-up letter, and I don't see, looking through
4 here, any correspondence that I wrote regarding why
5 they hadn't returned the phone call.

6 So I would think that very shortly after
7 Mr. Gramling contacted me, I would have contacted the
8 Governor's office, and that Mrs. Clinton would have
9 contacted me very shortly after that.

10 Q Now, Mr. Gramling told you he had tried to
11 get in contact --

12 A Told me he had been trying to collect the
13 loan and had been unsuccessful in either collecting
14 the loan or getting an extension agreement. And he
15 was concerned about having a past due loan on the
16 books and especially one to the governor of the state
17 of Arkansas.

18 Q Did he seem frustrated, disgruntled?

19 A Frustrated that he could get no response,
20 yes.

21 Q Now, if you would, please, sir, take a look
22 at documents 11 and 12.

1 A Chris, hold on just one second for me.

2 Q Sure.

3 A Document 11 is showing a loan application,
4 it looks -- wait just a second. Yes, it does look
5 like a loan application on document 11, and document
6 12 looks like an extension agreement. Okay. I have
7 got both of them in front of me.

8 Q Actually, aren't 11 and 12, they are both
9 promissory notes, are they not?

10 A Number 12, yes, it is a note. Yes, it is.
11 Looks like that is, looks like one of them is typed
12 and one is written. So it looks like they are
13 identical except one is written and one is typed.

14 Q Now, the typed one, document 11 --

15 A Okay.

16 Q -- shows that this agreement dated, it
17 says, 1/29/87?

18 A Yes.

19 Q Now, if that is correct or if this was
20 executed on that date, that would have been before
21 your communications with Mrs. Clinton; right?

22 A It would be, but I don't see any signature

1 on there, so I'm assuming that -- again this is an
2 assumption -- I'm assuming that it was not executed,
3 that it was prepared, but was not executed. And that
4 question would have to be answered by -- I don't see
5 any initials on this one, but on the written one,
6 it's Steve Gramling is there, but I notice it says
7 it's loaded 1/30/87. If it was loaded, unless there
8 was payment made, it would still be showing as a past
9 due loan, I think.

10 Q So you don't know whether this document was
11 executed or not?

12 A I do not, no.

13 Q Now, in March of '87 when you were speaking
14 with Mrs. Clinton and corresponding with her by
15 letter, was it not your understanding that something
16 had to be done with the loan?

17 A It was my understanding that the loan
18 needed to be brought current, that it was past due,
19 and had been past due since September.

20 Q Now, if this document 11 had been executed,
21 the loan would have been extended through September
22 30, '87?

1 A It would have been if it had been executed
2 and if it had been approved by the loan officer and
3 loaded on the computer, that's correct. And it would
4 not have been -- again, I don't know why -- again, I
5 see it appears that this was not executed, but it
6 does appear that it was loaded on the computer. And
7 why it was loaded on without being executed I have no
8 idea, but it evidently was still showing past due,
9 because my letter in March indicated that, at that
10 time, it was still a past due loan.

11 Q So as far as you know, until a new note was
12 executed in March of '87, the loan was past due and
13 had not been extended?

14 A That's correct.

15 Q Okay. Let's look at documents 16 and 17.

16 A Okay.

17 Q 16 is a Security Bank loan application --

18 A Yes.

19 Q -- in the amount of \$14,117, which is the
20 same figure that appears on your letter of March 5.

21 A Okay.

22 Q And then document 17, which has Bates

1 number DKS N 004125, is a promissory note, also in the
2 amount of \$14,117. So am I correct that these
3 documents were prepared in connection with the new
4 note that you and Mrs. Clinton executed?

5 A Yes, that is correct.

6 Q And if you will look on page 2 of document
7 number 16, in the lower left-hand corner, you will
8 see "requirements," and you see an SG?

9 A Steve Gramling. That's right. I did not
10 prepare those documents. Mr. Gramling would have
11 prepared them because I was negotiating the renewal
12 of the loan for him.

13 Q On document 16, I take it that is not your
14 handwriting?

15 A No, it is not.

16 Q Do you know if it's Mr. Gramling's?

17 A I do not know. I assume that it is since
18 he has initialed it, but I don't know.

19 Q Now document 17, the promissory note?

20 A Yes.

21 Q This would have been the new note that was
22 executed?

- 1 A Yes.
- 2 Q I note that it says effective date of
3 interest, 3/26/87?
- 4 A Okay.
- 5 Q Do you see that?
- 6 A Yes, I do.
- 7 Q What do you infer from that?
- 8 A I infer from that that the interest from
9 September 30 -- I don't know this, now -- but from
10 looking at that, that interest from September 30 was
11 paid up until -- no, actually it would be the
12 interest from September of '86 through -- let me go
13 back, Chris.
- 14 I would say that that note would have been
15 due -- let's go back to those documents -- in
16 September of '86; isn't that right?
- 17 Q Yes.
- 18 A Okay. I would assume that the interest was
19 paid from September of '85 through March 26 of '87 or
20 the interest had been paid previously through
21 September 30 of '86, and that interest was paid from
22 September 30 '86 until March 26, '87, because it

- 1 appears, when it says "effective date of interest,"
2 that the interest that was due up until that time was
3 paid, that is what it appears.
- 4 Q All right. Now, up near the top, it says
5 date 3/5/87?
- 6 A Okay. That would have probably been -- I'm
7 looking back at document number 15 -- in the letter,
8 that would have been the date of my letter to
9 Mrs. Clinton. So I'm assuming that when Mr. Gramling
10 probably didn't type this, he probably had a loan
11 secretary type it from his application, but she is
12 dating that evidently, that note the same date as my
13 letter. But the interest, again, it appears was paid
14 through March 26.
- 15 Q Do you know how soon after your March 5
16 letter the Clintons executed this and returned it to
17 you?
- 18 A No, I do not.
- 19 Q Now, I note --
- 20 A I did a good job, though; both of them
21 signed it.
- 22 Q It appears they signed it anyway.

1 A Okay. I would have no idea on that,
2 either, but it's the same, it appears to be the same
3 signature as that that is on a financial statement
4 dated March 24.

5 Q No, I was being facetious. We don't have
6 any reason to believe they didn't sign it.

7 A But I had to brag on me here now; it looks
8 like I did get signatures with my conversation to
9 her.

10 Q And you told me earlier that you had no
11 communications with the governor?

12 A No, I did not.

13 Q Your letter of March 5 says "please
14 complete the enclosed financial statement."

15 A Yes.

16 Q Do you remember asking Mrs. Clinton to
17 complete a financial statement when you spoke to her?

18 A Yes, I did.

19 Q And she was amenable to that?

20 A Yes, she was.

21 Q Is there a reason why you had to have a new
22 financial statement?

1 A We tried to get a financial statement on a
2 renewal on an annual basis. Why there wasn't one
3 gotten, why one had not been secured prior to that, I
4 don't know. But that is a normal practice; upon
5 renewal of a note or the execution of, especially on
6 the execution of a new note. Might not necessarily
7 occur on a renewal but on an execution of a new note,
8 a new financial statement would be common practice.

9 And this was a new note and not a renewal.
10 So I would have -- again I don't remember asking her,
11 but I feel certain that I probably did ask her to
12 complete a new financial statement, and for she and
13 the governor to return that completed financial
14 statement to go to us, to go with the loan document.

15 Q And you would look at document 18, personal
16 financial statement, filled out by the Clintons --

17 A Yes.

18 Q -- dated March 24, '87.

19 A Yes.

20 Q Was this the financial statement that they
21 submitted?

22 A I assume that it was. I can't swear to

1 that, but I assume that it was, yes.

2 Q Is this a Security Bank form?

3 A Yes, it is.

4 Q It's dated March 24, '87?

5 A Yes.

6 Q Is it possible that the Clintons didn't

7 complete the paperwork on this new note until about

8 that date?

9 A Yes, it is possible.

10 Q Have you had a chance to look over this
11 financial statement?

12 A Yes, I have.

13 Q Is there anything remarkable or unusual
14 about it as far as you can tell?

15 A No, it looks like a standard financial
16 statement that was completed. And that would not be,
17 again, was certainly not -- an unsecured loan of that
18 amount would not be unusual based on the financial
19 statement.

20 Q Under "assets, partial interest in real
21 estate equities" --

22 A Yes.

1 Q -- there's a listing of \$50,000?

2 A Yes.

3 Q And then the form says "see schedule C"?

4 A Yes.

5 Q I turn to page 2 and the block for schedule
6 C is not filled in.

7 A Correct.

8 Q But is that problematic at all?

9 A That is not unusual for that not to be

10 there, if we feel comfortable, if we would have felt
11 comfortable with the loan. And that is really a call
12 of the lending officer.

13 Q Now, the Clintons were under a legal
14 obligation to submit truthful information on this
15 form; right?

16 A Certainly.

17 Q Okay. Let's take a look at document 19,
18 which is Bates number DKRT 200790.

19 A Okay. Just a minute. Let me look at it.
20 Okay.

21 Q Now, this is a letter from Marlin Jackson
22 to Hillary Clinton, dated March 27, 1987. So this

1 falls in the same time period when you were dealing
2 with Mrs. Clinton.

3 A It's after I had already completed my
4 information with Mrs. Clinton and I'm sort of, it
5 appears that, from reading the letter, that Marlin
6 did not realize that we had already completed the
7 renewal of the loan.

8 Q One thing he says is "in order to meet
9 banking regulations, it is necessary for you and Bill
10 to sign the enclosed extension agreement at the
11 bottom of the page"?

12 A Well, there was no extension agreement.
13 That is why I say it appears that he is talking about
14 an extension or something that occurred prior to
15 then, and we had already completed going back and
16 looking at the March 5 letter and the note that the
17 governor and/or the President and Mrs. Clinton signed
18 and also the extension agreement that all of that, I
19 mean the financial statement that all of that took
20 place prior to the March 27 letter.

21 So I don't know why a letter would be going
22 to Mrs. Clinton talking about an extension agreement

1 on March 27 when everything else had been taken care
2 of, unless Mrs. Clinton had talked to -- and that is
3 what it appears from back on the other -- where is
4 that note -- what date was the phone conversation
5 thing?

6 Q March 2.

7 A Okay. Looks like she must have talked to
8 him on March 2 regarding an extension and my
9 conversation -- well, that would probably make
10 sense. She has my name and phone number down there.
11 If she would have talked to Mr. Jackson on the 2nd
12 and if it were regarding that note, she would have to
13 call me after the 2nd and between the 2nd and the 5th
14 sometime. And that is when we would have
15 renegotiated the loan agreement. And it appears that
16 Mr. Jackson was not aware that that had taken place,
17 looking at his March 27 letter.

18 Q Now, it was your testimony that you didn't
19 have any interaction with Mr. Jackson with respect to
20 this note?

21 A That's correct.

22 Q So when he leaves your name and number, as

1 he did on this March 27 letter to Mrs. Clinton, you
2 didn't know about that?

3 A No, I did not.

4 Q You didn't say to Mr. Jackson feel free to
5 tell the Clintons to contact me.

6 A No, I did not. I didn't talk to
7 Mr. Jackson about the loan at all.

8 Q Now, this is another letter that
9 Mr. Jackson prepared or had prepared or was prepared
10 on official bank department stationery, and again
11 signed over the Bank Commissioner title. So I guess
12 my question is, it was your testimony that you
13 didn't -- you weren't aware of any involvement by
14 Mr. Jackson in the handling of this loan?

15 A No, I was not.

16 Q Are you aware of any other instance in
17 which Marlin Jackson, while bank commissioner, was
18 involved with a loan at the Security Bank, handled it
19 on behalf of a borrower?

20 A No, I was not.

21 Q The bank commissioner is not the governor's
22 personal banker, is he?

1 A No, he isn't. I wouldn't think so. Now,
2 the governor might have considered him his personal
3 banker, but I would not think that he was. According
4 to Mrs. Clinton, it seems she was the one that was
5 handling the business matters instead of the
6 governor.

7 Q That is true. I guess I could have also
8 asked the question that the bank commissioner is not
9 the governor's wife's personal banker?

10 A No. I guess she might have considered him
11 that.

12 Q Okay. Document 20, DKRT 400154 --

13 A Okay.

14 Q -- is a letter from you to Mrs. Clinton,
15 dated March 31, '87.

16 A Just a minute. Let me read that.

17 Q I take it this is a letter you wrote after
18 all the documents had been completed and filed?

19 A Yes, that is what it appears.

20 Q And you remember telling her everything is
21 in order?

22 A Yes. And it appears she made a payment;

1 sometime in between there and that, we applied that
2 payment against the note.

3 Q Do you remember anything that is not
4 reflected in the letter?

5 A No, I don't.

6 Q Document 21, Bates number DEK 007331 --

7 A Yes.

8 Q -- appears to be an unsigned letter from
9 Mrs. Clinton to you, dated July 21, '87?

10 A Yes.

11 Q Simply says "forward note payments here to
12 me at the Rose Law Firm"?

13 A Right.

14 Q Do you remember having any communications
15 with her?

16 A No, I'm not sure where she had told me to
17 send those payments before. Evidently -- I'm just
18 looking back -- evidently I was sending them to the
19 1800 Center Street because that is the address on the
20 application. And it appears that, from this July
21 21st letter, that is not where she wanted them sent.
22 She wanted them sent to the law firm.

1 Q While we are discussing this letter, look
2 at document 23, DKRT 007332. It appears to be a
3 letter you wrote the next day, July 22, 1987 --

4 A Okay.

5 Q -- wrote to Mrs. Clinton essentially
6 acknowledging receipt of her letter and agreeing to
7 send the payments where she requested.

8 A Yes.

9 Q This is consistent with your memory about
10 this?

11 A Chris, I don't remember writing the letter,
12 but I'm sure I did. That is my signature.

13 Q Okay. Now, subsequent to 1987, do you have
14 any memory of the Clintons' loan becoming past due
15 once again?

16 A No. It very likely could have been, but
17 again I was not involved in, directly involved in the
18 lending function. Those past due notices, if it had
19 been past due, would have come from the loan officer
20 responsible for it, and that loan officer would have
21 handled it.

22 And unless it was a loan of a large amount,

1 I would not have been involved and would not have
2 known on a routine basis what loans were past due.

3 Q Okay. Let's turn quickly to document 22 --

4 A Okay.

5 Q -- notice of past due loan payment, dated
6 March, appears to be 18th, possibly March 13, 1988?

7 A Yes.

8 Q It indicates that a little over \$13,000 is
9 due.

10 A Yes.

11 Q You don't have any memory of the
12 information reflected in this form?

13 A No, I do not. Again that just looks like a
14 standard past due notice. Well, I will tell you why
15 you have that, because the loan was set up on monthly
16 installments but that loan was dated in March of 1987
17 to come due in March of 1988. Even though it was set
18 up on a monthly payment basis, our practice was not
19 to make a loan for over a year so that we could come
20 back at the end of the year and redo that loan and
21 adjust the interest rate based on market conditions.

22 So this would have been, the total loan

1 would have come due in March of '88. And this would
2 have been a past due notice showing that that loan
3 had come due and a new extension agreement would have
4 to be reached or the loan would have to be reworked
5 in order for it to continue.

6 Q Now, it was your testimony that in '87 when
7 you helped Mrs. Clinton to execute a new note, you
8 changed it from being date based to installment
9 based?

10 A That's correct.

11 Q I'm not a banker but I take it that means
12 that, instead of being due in one lump sum at the end
13 of the year, there were monthly payments due?

14 A There were monthly payments due but that
15 was put on, that went back to the document. It
16 looked, like I said in the letter, that based on
17 those payments it would pay out in five years. We
18 would have had a note on monthly installments due in
19 a year but based on a five-year schedule, and the
20 reason that our installment loans were set up on that
21 basis is so that at the end of the year, we could
22 readjust interest rates based on market conditions.

1 So when we, at the end of that year's
2 period of time, when we redid -- actually what the
3 common practice was not to redo the loan but extend
4 the loan for one additional year. If the interest
5 rates had gone up during that period of time, we
6 would have probably changed the terms on the note to
7 reflect that higher interest rate. If interest rates
8 would have gone down, we would have, on the extension
9 agreement, reflected the lower interest rate, which
10 would have not changed the amount of payment, but
11 would change the length of the time for the note to
12 be paid off.

13 So when I look at this past due notice, the
14 past due notice would have gone out, not because the
15 monthly payment was past due, but because the note
16 had matured.

17 Q Okay. Let's look at documents 24 and 25.

18 A Okay.

19 Q 24 is another Security Bank note extending
20 the loan from March of '88 to March of '89?

21 A Right.

22 Q Do you have any memory of this?

1 A No, I don't. Looks like Mr. Gramling
2 handled that extension and I don't remember it.

3 Q You don't have any memory of Mr. Gramling
4 coming to you and saying again he was having problems
5 getting --

6 A I don't believe he did that.

7 Q And then document 25 appears to be --

8 A Looks like it's a pay-off of that
9 particular note.

10 Q All right. The last document I have for
11 you, number 26, your letter from December 29, '88 to
12 Mrs. Clinton --

13 A Yes.

14 Q -- indicates that the note has been paid.

15 A Mr. Gramling would have probably brought
16 those documents to me, and I wrote the letter and
17 mailed the documents to her.

18 Q Do you have any memory about the
19 circumstances surrounding the final payment of the
20 loan?

21 A None at all. I would not have seen those
22 payments. The normal practice is when they came in,

1 they would have gone to the note department. And the
2 note department would have taken whatever moneys
3 accompanied the payment and would have posted those
4 to the account. And I would not have seen or handled
5 those at all.

6 MR. BARTOLOMUCCI: Okay. That's all I have
7 for you. I'm going to turn this over to Mr. Ivey.

8 EXAMINATION

9 BY MR. IVEY:

10 Q Good morning, sir.

11 A Good morning.

12 Q I apologize, I may have to run back through
13 some --

14 A Yes, sir, I'd be glad to go back.

15 Q I just wanted to flesh out a few points
16 here --

17 A Sure.

18 Q -- get some additional comments from you?

19 A Sure.

20 Q Let me move backward here.

21 A Okay.

22 Q I think you were just talking a moment ago

1 about a past due notice. I think it was document 22,
2 if my notes are correct.

3 A Okay.

4 Q I wanted to make sure I understood what you
5 were saying here. The past due notice went out
6 because the loan had matured?

7 A Yes. Let me see if I can clarify this.
8 You come in as a borrower and we negotiate a loan.
9 And let's say it's an installment loan based on a
10 three-year pay out. And for simple purposes, let's
11 say it's \$3,600 and the pay out is \$300 a month
12 principal and interest. We could do that in one of
13 two ways. We could make the note a three-year note
14 with payments being made on a monthly basis for the
15 three-year period of time which the payments would be
16 the same. All the terms of the note would be the
17 same during that period of time.

18 Or we could make a note on a three-year
19 installment basis with the note being due on an
20 annual basis. And in that case, at the end of the
21 one year period of time, we as the bank actually have
22 the discretion of renewing that note for the next

1 two-year period of time at the same conditions that
2 the existing note was, or of renewing that note at
3 different conditions or not renewing it at all.

4 And it's common practice, or was common
5 practice for us at the bank, on installment loans to
6 make those installment loans due in a year, even
7 though we had the schedule over a longer period of
8 time in order that we could adjust interest rates.

9 Arkansas at that time, and I think still
10 does, have one of the most stringent usury laws in
11 the nation. And in order for us to be able to adjust
12 those rates, we would have to have the note coming
13 due or that interest rate would be locked in for the
14 three years. So even though that was put on a
15 scheduled pay out of about five years, the note
16 itself was due in a year.

17 Q All right. So the fact that this notice
18 went out is a reflection of the fact that this loan
19 had matured?

20 A That's correct.

21 Q What does it reflect about whether they
22 were making their annual payments?

1 A It doesn't. In fact, at that time, it
2 would not have been annual payments; that is '88, so
3 that would have been monthly payments they would have
4 been making during that period of time. I think the
5 only reflection that you would have, it looks like --
6 let me go back.

7 It looks like the note was for \$14,117.59
8 when it was made in March of '87. So when we look at
9 that balance of \$12,444.78, it would reflect that
10 monthly payments had been made from March of '87
11 through March of '88 in order to reduce that
12 principal balance down that much.

13 Q Okay. So does that, that means that they
14 may have been making their monthly payments?

15 A They made -- they could have been making
16 monthly payments or lump sum payments. And I assume
17 they would have been making monthly payments or we
18 would have seen more past due notices in there.

19 Q Okay. I appreciate your clarifying that
20 for me.

21 A Yes, sir. I'm working from documents now.
22 I can't remember back everything exactly, you know,

1 seven or eight years ago.

2 Q That is understandable. I think we all
3 recognize that this was a long time ago. And based
4 on what I have heard so far, it doesn't appear that
5 there was anything particularly remarkable about this
6 loan.

7 A In this particular thing, I think the only
8 thing that is remarkable in the loan is that it was
9 made to the governor of the state of Arkansas and
10 that it appears, from some of the correspondence,
11 that the bank commissioner had some involvement with
12 directly with the Clintons on it. But my involvement
13 with the loan would be no more than a normal -- than
14 a loan officer coming to me with a loan that was past
15 due for a period of time, and saying I need some help
16 on this particular loan. And the reason that the
17 loan officer would have come to me is they did not,
18 they were not getting any response and they knew that
19 I did know of the governor.

20 Q Okay. Since you brought up Mr. Jackson,
21 let me move to that issue.

22 A Sure.

1 Q There were two documents that you were
2 given, number 9 and number 19.

3 A Okay, just a minute. Let me go to 9.
4 Okay.

5 Q Let's deal with number 9 first. That is
6 the November 1, 1985 document from Mr. Jackson to
7 Mr. Campbell?

8 A Okay. Yes.

9 Q Now, my recollection of what your testimony
10 was, was that it wouldn't be appropriate for him to
11 have sent this out on Bank Committee stationery?

12 A That is a personal opinion. I don't know
13 that, I don't know the protocol for the state bank
14 department, but it's a personal opinion that that
15 letter should have gone on personal stationery to
16 Mr. Campbell.

17 Q Yes, sir. I think you also mentioned that
18 he had a dictaphone that he used frequently.

19 A Yes.

20 Q I don't know if you saw the hearing last
21 week -- we had hearings last week -- in which some of
22 Mr. Jackson's testimony was read with respect to this

1 letter. And he testified very similar to your
2 testimony. He said that he had dictated this letter,
3 given it to his secretary to type and that she had
4 done that. And that she put it on the state bank
5 department stationery accidentally, and signed it for
6 him.

7 So I guess your knowledge of him, you said
8 you have known him for over 40 years?

9 A Yes, sir.

10 Q You seem to know him pretty well.

11 A That would not be unusual. I would not
12 dispute that that happened, but I'm looking at the
13 letter that is his signature on, appears to be his
14 signature on the letter. And again, why it went on
15 bank department stationery, rather than personal
16 stationery or plain stationery, I have no idea.

17 Q Okay. Now, you also mentioned, with
18 respect to the March 27, 1987 letter, you were asked
19 some questions about that. At one point, you were
20 joking. Mr. Bartolomucci asked if Mr. Jackson was
21 the personal banker or something to that effect of
22 the Clintons, and you said that -- you were laughing

1 at the time -- you said that the governor and
2 Mrs. Clinton might have considered him to be so.

3 A Well, I think -- and my statement on that
4 would be -- and it wasn't really a guess -- it was a
5 statement that I was serious about. The governor and
6 Mrs. Clinton had known Marlin for a number of years.
7 They were aware of his knowledge of the financial
8 industry, and I could see them going to him and
9 asking him for advice regarding financial matters. I
10 don't know that that happened, but I could see that
11 happening.

12 Q I guess that was going to be my next
13 question. You have been asked to speculate a bit
14 during the deposition here and I just wanted to be
15 clear, though, that your knowledge does not
16 necessarily extend to conversations the Clintons may
17 have had?

18 A Absolutely not. I have no idea what their
19 conversations were with Marlin when he was, before he
20 was commissioner, during the time he was commissioner
21 or after he was commissioner. But I do know that
22 there was a relationship between the governor and

1 Marlin. I feel confident he would never have
2 appointed him bank commissioner if he had not known
3 him and had checked out his -- not only being
4 personally acquainted with him, but have checked out
5 his qualifications with the banking -- the bankers
6 and other people across the state of Arkansas.

7 So again without knowing, I'm speculating
8 that there was a mutual respect between the two, and
9 that there was a good possibility that both the
10 governor and Mrs. Clinton could have conferred with
11 Marlin regarding personal banking matters. Again I'm
12 speculating. I have no idea at all.

13 Q If they had conferred with him, that
14 wouldn't necessarily be illegal or improper?

15 A No, certainly not.

16 Q And with respect to the letter that did
17 come to your bank, to Mr. Campbell, I think you
18 testified you weren't aware that the bank had
19 received the letter?

20 A No, I was not.

21 Q And let me ask this just to be clear: Are
22 you aware of any evidence or any conversations or

1 anything that you can recall that may lead you to
2 think today that Mr. Jackson in any way exercised any
3 improper influence over your bank or any of the
4 banks's officials with respect to this loan?

5 A No.

6 Q Did Mr. Campbell mention to you that he had
7 gotten the letter from Mr. Jackson?

8 A He did not.

9 Q Did any senior officials at the Bank of
10 Paragould mention this to you?

11 A They did not.

12 Q To the best of your knowledge, did this
13 letter impact or influence the way this loan was
14 treated at all?

15 A No.

16 Q Okay. I may be done here. Let me flip
17 through my notes. Please indulge me for just a
18 moment.

19 A Sure.

20 Q Oh, I wanted to ask this question. I'm not
21 a banker, either, sir.

22 A I will try to -- I'm not any more, but I

1 will try to answer it for you.

2 Q You mentioned, with respect to the
3 financial statement, you said something about
4 execution of a new note as opposed to a renewal of a
5 note?

6 A Okay.

7 Q Do you mean by renewal of a note, would
8 that be considered these extension agreements?

9 A Agreements would be renewal of the note
10 without actually retyping the note and changing the
11 conditions and the terms of the note. The note can
12 have terms changed as a result of the extension
13 agreement. But if you are going -- and when I say
14 "terms changed," an interest rate changed; possibly
15 if it was put on that installment note, the amount of
16 the installment; possibly if it was worded
17 differently that would be changed. But when you are
18 changing the terms, normally the whole terms of the
19 note going from a dated note to an installment note
20 and the agreement being changed, you would need new
21 documentation.

22 And normally when that new documentation,

74

1 when the new note is executed, we would go back
2 again, just like we should at the original loan,
3 requiring current financial statements to accompany
4 that.

5 Q Okay. So the extension agreements on
6 document 7, I believe they were for 1985 and 1986,
7 those would not have necessitated a new financial
8 statement?

9 A No, they could, that is correct. But let
10 me clarify that that is a call of the loan officer,
11 that loan officer might have requested a financial
12 statement with that extension or they might not have
13 requested that financial statement, and that would be
14 how well they knew the borrower, how comfortable they
15 felt with the borrower. So they might or might not
16 have required a financial statement.

17 Q So the --

18 A It appears in this case they did not.

19 Q So the policy of the bank at that time
20 would have allowed the loan officer to decide or to
21 have the discretion --

22 A That's correct.

1 Q -- with respect to requiring a new
2 financial statement for an extension agreement?

3 A That's correct.

4 Q But when the new terms were established in
5 1987, I guess the principal one being the installment
6 payment approach as opposed to the annual approach,
7 then that would as a matter of the bank's policy --

8 A Yes, and that is when I would have asked
9 Mrs. Clinton, in talking to her, to furnish us with a
10 current financial statement on she and Bill, and that
11 was reflected with, I believe, and I don't have the
12 document in front of me, but the financial statement
13 that came back with those papers, or shortly
14 thereafter.

15 Q Now, with respect to the financial
16 statement that was submitted in response to your
17 conversation with Mrs. Clinton, you were asked about
18 whether there was an obligation to submit truthful
19 information. Let me ask a follow-up question on
20 that.

21 Are you aware of any evidence that the
22 Clintons knowingly or intentionally submitted false

76

1 information on that financial statement?

2 A No, I'm not.

3 Q Okay. Let me go back to the financial --
4 I'm sorry -- extension agreements that we were
5 talking about.

6 A Which number is that, sir?

7 Q I think it's number 7.

8 A Okay.

9 Q I had two questions for you.

10 A Okay.

11 Q The first one is there is a stamp, it looks
12 like, a round stamp?

13 A That round stamp would have been the date I
14 believe that -- well, let's see. That is March of --
15 that is showing March of '87? I can't -- it looks
16 like, whatever that date is, that stamp normally
17 would be the date that it was received by the note
18 area.

19 Q And the note area would receive it at what
20 point?

21 A When it was either returned back direct to
22 them or to the loan officer. I see this one

1 evidently came back from Bill Clinton and I don't
2 know whether that was mailed, that would have either
3 gone back to the loan officer that sent him the
4 extension agreement, or it would have gone direct to
5 the note area, where the note tellers would have
6 taken the extension agreement and loaded it on the
7 computer after it was approved by the loan officer.
8 And it looks like again that that is Steve Gramling's
9 loan there.

10 Q Okay. Let me see if I understand all the
11 dates on this particular --

12 A I'm going to need to leave you for just one
13 second again. Hold on one second.

14 Q Take your time, sir.

15 (Recess.)

16 BY MR. IVEY:

17 Q I was going to ask you to explain for me
18 the dates on this extension agreement. There is one
19 date that says 10/11/85, handwritten, on extension
20 agreement number 5116.

21 A Okay.

22 Q Now, that date means that this was the date

1 that the form was completed?

2 A Well, I'm not sure. I'm not trying, again,
3 to avoid your question, but I'm not sure that that
4 was the date that the form was completed and mailed
5 to Governor Clinton, or if that was the date that it
6 was received back from Mr. Clinton, or whether it was
7 the date that Mr. Gramling put on there when he sent
8 the extension agreement out.

9 Q Okay. So it could be any of those things?

10 A Yes, it could.

11 Q And "loaded" is written on there?

12 A "Loaded" means that it was -- that looks
13 like, again, that it probably came back and was given
14 to the note area and they loaded it, loaded that
15 extension agreement on the computer. So it would not
16 have -- there would not have been any extension
17 agreement noted on the bank's books until it was
18 actually loaded on the computer and posted to the
19 account, which it appears from the notation up there,
20 that that was November 13.

21 Q All right.

22 A So I'm assuming again that the note was due

1 on September 30; was extended for a year's period of
2 time to 9/30/96; that Mr. Gramling mailed that
3 extension agreement -- I'm assuming or he or the
4 secretary, one -- to the governor. And I would
5 assume from this that, probably Mr. Gramling, that he
6 probably dated that or the loan secretary did, on
7 10/11, mailed that to the governor.

8 It came back from the governor,
9 Mr. Gramling approved it and they put it on the
10 computer November 13. So that some time between
11 October 11 and November 13, Governor Clinton signed
12 the note and returned it.

13 Q All right. I appreciate that. Now I had
14 one last series of questions for you.

15 A Certainly.

16 Q I wanted to go to documents 5 and 6. These
17 are the past due notices --

18 A Okay.

19 Q -- from 1984, October of 1984.

20 A Okay.

21 Q And you pointed out that between October 5,
22 1984 and October 15, 1984, a payment of roughly \$5000

80

1 had been made?

2 A Yes, it appears that it is -- because that
3 note, looking at the notices, is showing on the 5th a
4 past due notice of an amount of \$23,680, which I'm
5 assuming -- let me go back, is that the original
6 note? Well, pretty close to the original note.

7 No, I can't even tell. I don't know where
8 that amount came from, it looks like the note was
9 \$20,000. I bet that possibly has interest in it.

10 Q Yes. \$20,800, is I think where it started?

11 A Yes. Evidently what you have is interest
12 in that which brought it up to \$23,680. Then it
13 appears there was a payment made, reducing that
14 note -- sometime in that 10-day period, reducing it
15 to \$18,979 dollars \$18,917 -- and I can't tell if
16 that is 59 or 99 cents.

17 Q Okay, so roughly \$5000?

18 A Yes.

19 Q Now, go to document number 8, which is
20 Mrs. Clinton's October 22 letter.

21 A Okay. Just a second. Okay.

22 Q Mr. Bartolomucci asked you to look at the

1 second paragraph, where it says "I asked Security
2 Bank to extend the note but apparently my written
3 request fell on deaf ears."

4 Now, this is about seven days after the
5 second late notice was sent out, if I'm counting that
6 correctly; is that right?

7 A Let me go back to the notices. I have
8 already turned that over. So we are looking at --

9 Q I apologize --

10 A That is correct. I'm assuming, but that
11 October 22, I don't know what year that was, because
12 that, it does not have a year on there.

13 Q Yes. We have a 1984 written in the
14 corner. I can't honestly say that Mrs. Clinton wrote
15 that date on there, but our understanding is --

16 A I see that now, I see the 1984. So I don't
17 know when that -- I don't know what October 22, but
18 assume if we assume that it was 1984, then you are
19 correct in that that would be roughly seven days
20 after the second notice.

21 Q All right. So I realize you weren't privy
22 to the conversation between Mrs. Clinton and

1 apparently Jim McDougal here --

2 A I was not.

3 Q -- but it appears that the first late
4 notice went out. A payment of approximately \$5000
5 was made. Then a second late notice comes out. And
6 then Mrs. Clinton writes this note to Mr. McDougal
7 and apparent confusion as to what has taken place
8 with respect to this loan. That is consistent with
9 those three documents?

10 A Yes, it is.

11 Q Okay. Let me ask you this: With respect
12 to the loans and the extensions, whenever a loan is
13 overdue, does the bank continue to accrue interest on
14 the loan?

15 A Yes, it does.

16 Q And to the best of your knowledge, did the
17 Clintons always pay the interest on the loans?

18 A As far as I know.

19 Q All right. And eventually, I guess it was
20 document 25, shows they paid off the loan in its
21 entirety?

22 A Yes, it does.

1 Q All right. You sent a letter that
2 reflected that fact?

3 A Yes.

4 Q Okay. So the Clintons, as far as you can
5 tell, paid the loan off and paid off the interest
6 that was due on the loan?

7 A Yes, they did. And I would not have seen
8 those moneys when they came in. Those would have
9 gone either to the loan officer or direct to the note
10 department.

11 Q All right. So just in general, the loan
12 that the Clintons received had interest rates that
13 were roughly consistent with rates that were given to
14 other borrowers during that period?

15 A It appears that that is correct.

16 Q And these extension agreements, and I guess
17 there were late notices that went out, there was
18 correspondence with respect to this loan, but this
19 seems to be typical --

20 A It appears to be no different than any
21 other loan that was made and that was past due and
22 the way that it would be handled.

1 MR. IVEY: All right, sir. I think that
2 concludes the questions I have for you. I thank you
3 very much for your time.

4 EXAMINATION

5 BY MR. BARTOLOMUCCI:

6 Q Mr. Fisher I have a few follow-ups for
7 you. Referring back to document 7, the 1985
8 extension agreement, the one that contains that round
9 stamp?

10 A Yes.

11 Q I didn't entirely understand what that
12 was.

13 A That round stamp would have been placed on
14 the document by the note department. And normally
15 it's placed on the document when the document is
16 loaded or when it has been received back and loaded.
17 And one thing, if you say it's strange on that one,
18 it appears that statement is dated March, 1987.

19 Q That it how I read it too, looks like
20 March 27, 1987?

21 A And these documents all show "loaded 1985"
22 and I have absolutely no idea why in the world you

1 would have a stamp dated 1987 when a document is
2 showing to be loaded in November of '85. I can't
3 answer that question. But that is, if you ask me if
4 this whole series, without going over them in detail,
5 but looking in this short period of time, if there is
6 anything really unusual about the documents, that
7 would be something that is unusual.

8 Q Can you think of any reason why this form
9 would get stamped two years after it was apparently
10 executed?

11 A No, I have no idea. I certainly don't, but
12 that stamp would have been put on it. That is a
13 teller stamp and either a regular teller or note
14 teller would have a stamp. And if you see the "4" up
15 there, that would be the identification of the teller
16 at that time. And I don't have any idea who teller 4
17 is. One thing I notice, though, is normally there
18 would be an arrow pointing to the date part of the
19 month. See the dates going around the circle?

20 Q I can see an arrow on my copy.

21 A I can't see it on mine, so the arrow would
22 indicate the day of the month.

1 Q On my copy there is an arrow pointing
2 straight up at 27.

3 A Well, I don't know that, I don't think that
4 that is an arrow. I think that is, it might be. Can
5 you see it, is it an arrow on yours?

6 MR. IVEY: It's a tough read. I thought it
7 was an arrow. It may be a teller number.

8 THE WITNESS: Go back to document 16. I'm
9 just glancing through. Do you have document 16 in
10 front of you. Do you see that arrow on it? And that
11 is a distinct arrow pointing, looks like, to 28.

12 MR. IVEY: Yes, sir.

13 BY MR. BARTOLOMUCCI:

14 Q Let's also take a look at document 24,
15 because that has a pretty clear stamp.

16 A Okay. Hold on a second. It does, and so
17 yes, it does appear that the -- looking at that, it
18 does appear then on document 7 that that is an arrow
19 and that arrow is pointing to 27. And it's pointing
20 to, the date indicates March 27, 1987.

21 And again, I would have absolutely no idea
22 why you would have a stamp dated March, 1987 on the

1 document that was loaded on November 13, 1985.

2 Q So I take it this is the sort of stamp
3 where the date is along the perimeter, you can
4 rotate?

5 A Yes, you can.

6 Q The arrow is always pointing up?

7 A I'm not sure, but you can either -- it
8 appears, no, it appears, looks like you might rotate
9 either one, but yes, it does rotate. I'm not sure
10 whether the numbers rotate or the stamp.

11 It appears, if you look at document 27, you
12 look at, on 27, you look at the one on 7, it appears
13 that both of them might rotate, because there is
14 no -- on page 24, see, the arrow is at about an 11:00
15 angle rather than a 12:00 angle.

16 So it always -- the top two on one of them,
17 the days have been rotated and the other one appears
18 the arrow has been rotated.

19 Q I think that just the whole stamp has been
20 rotated in that case.

21 A But what the stamp is utilized for is
22 either a loan teller or note teller -- and I thought

1 that this would have the teller's number on it. I
2 guess it's just the regular teller that was waiting
3 on the customers. Evidently the note teller didn't
4 have identification on it.

5 So it's a stamp that they would put on that
6 note to show when it was -- and it looks like when
7 it's paid, because it looks like that says on
8 document 7, doesn't it, look like that, that same
9 page, "Security Bank" underneath it there? Again I
10 can't see.

11 Q Well, let me ask you this: There may be a
12 very simple explanation for this. The new note that
13 you executed in 1987, that paperwork appears to be
14 completed about March 26 or 27, 1987.

15 A Okay. That could have been, they could
16 have come back -- yes, that does make sense. They
17 could have come back and marked a paid stamp on this
18 extension agreement, indicating that the note was
19 paid off on March of '87. I hadn't thought of that.
20 That does make sense.

21 Q Because this is an extension on the
22 original note?

1 A That does make sense, when it was loaded,
2 so that stamp -- when they paid off the original
3 note, they would have come back and made that stamp
4 on there when the other note replaced it. That does
5 make sense. Thanks, you are bringing -- we are going
6 to put you to work for the banking industry.

7 Q Maybe I should be a banker.

8 MR. IVEY: We are up here on the Banking
9 Committee. I guess that makes sense.

10 BY MR. BARTOLOMUCCI:

11 Q I have a couple more questions. Mr. Ivey
12 mentioned at one of our recent hearings there was --
13 a portion of Mr. Jackson's deposition testimony was
14 read in which he described his practice with
15 dictaphone machines. Did you hear that testimony?

16 A No, I did not. I have not heard any of the
17 testimony. I hadn't heard any. I might have flipped
18 it on for one point, but I have not heard any of his
19 testimony at all.

20 Q I was just wondering where your testimony
21 about his use of the dictaphone came from.

22 A Well, I have again have known him for

90

1 years. And it would not be unusual when I was at the
2 bank back in the '70s, and him to be there, he was an
3 early morning person, he might come in at 2:00 or
4 3:00 in the morning. And by the time the secretary
5 comes in, she would have a half dozen dictation tapes
6 to take off. And that dictation was extremely heavy
7 at the bank. It was again not unusual for him to
8 have two secretaries doing dictation.

9 (Discussion off the record.)

10 BY MR. BARTOLOMUCCI:

11 Q One last thing. The Fed Ex package of
12 documents that I shipped to you?

13 A Yes.

14 Q Was that sealed when you received it?

15 A Yes, it was.

16 Q And have you showed those documents to
17 anybody?

18 A No, I have not.

19 Q Have you made any copies of them?

20 A No, I have not.

21 Q And I assume you are going to send those
22 back to me without copying them or showing them to

1 anyone?

2 A Yes, I think that on the letter it says
3 please complete and return. If you don't mind that,
4 Chris, if you would call me back -- and, in fact I
5 will just go ahead and execute the one in here
6 anyway, that I'm sending back, and do those need to
7 come just to you at the Committee on Banking, House
8 and Urban Affairs, or is there a particular address
9 that it needs to come to?

10 Q We can discuss that after the deposition.

11 A That is fine. No, I have not shown them to
12 anyone and they have not left my possession.

13 MR. BARTOLOMUCCI: All right. Thank you
14 very much. I think that concludes our deposition.

15 MR. IVEY: No additional questions from
16 me. Thank you very much.

17 (Whereupon, at 11:05 a.m., the deposition
18 was concluded.)

19

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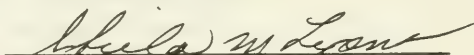
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WILLIAM B. FISHER

CERTIFICATE OF NOTARY PUBLIC & REPORTER

I, SHEILA M. LYONS, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires AUGUST 31, 1997

DEPONENT _____

ERRATA

PAGE	LINE	CHANGE FROM	CHANGE TO	REASON
<u>4</u>	<u>9</u>	<u>Eliminate - I would like to</u>	<u>NAT General</u>	
<u>5</u>	<u>16</u>	<u>Kings Highway</u>	<u>Kings Highway</u>	<u>" "</u>
<u>5</u>	<u>21</u>	<u>AND UNIVERSITY OF ARKANSAS, FORT TERRY, ARKANSAS</u>	<u>WHERE I OBTAINED A B.S. DEGREE</u>	
<u>6</u>	<u>1</u>	<u>AND I CONSULTED GRADUATE SCHOOL OF KING</u>		
<u>6</u>	<u>9</u>	<u>Floral</u>	<u>Floralist</u>	
<u>6</u>	<u>10</u>	<u>Which is An International Flower by Wire</u>		
<u>6</u>	<u>19</u>	<u>Eliminate 19-</u>		
<u>7</u>	<u>7</u>	<u>CHANGE EBP TO EVP</u>		
<u>7</u>	<u>13</u>	<u>Eliminate UNTIL 19-</u>		
<u>9</u>	<u>20</u>	<u>FRANK WAS CHAIRMAN OF -</u>	<u>SHOULD ELIMINATE THIS</u>	
<u>9</u>	<u>22</u>	<u>Chairman</u>	<u>TO PRESIDENT</u>	
<u>10</u>	<u>1</u>	<u>SHOULD READ - OF THE HOLDING COMPANY AND CHAIRMAN OF THE BOARD</u>		
<u>12</u>	<u>18</u>	<u>I HAVE SEEN HIM</u>		
<u>12</u>	<u>21</u>	<u>Eliminate and Myself</u>		
<u>12</u>	<u>22</u>	<u>Eliminate and</u>		
<u>13</u>	<u>1</u>	<u>Members and I saw</u>		
<u>13</u>	<u>4</u>	<u>Eliminate and</u>		
<u>14</u>	<u>19</u>	<u>Eliminate and</u>		
<u>15</u>	<u>9</u>	<u>Eliminate by the -</u>	<u>THE NOTE EXECUTED</u>	

DEPONENT _____

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PAGE	LINE	CHANGE FROM	CHANGE TO	REASON
15	20	Eliminate	- would be - that	
18	8	Eliminate	again: That is	
18	21	Eliminate	- We would have -	
23	17	Eliminate	was add The	
23	19	Eliminate	it	
23	20	Eliminate	1944 add 1984	
25	7	Eliminate	line 7	
25	6	Eliminate	head-	
25	4	Eliminate	it would-	
25	16	Eliminate	it would not be	
26	16	Eliminate	That would be the same-	
26	20	Eliminate	The note is-	
28	16	Eliminate	I Don't Even	
28	17	Eliminate	Know - Appears From The Letter -	
31	21	Eliminate	When I Look At	
34	10	Eliminate	Wakil Add The Note	
34	13	Eliminate	Need Add Note	
35	9	Eliminate	on 71 - leave Secretary, one,	
35	12	Eliminate	And That in, After That,	

DEPONENT

ERRATA

PAGE	LINE	CHANGE FROM	CHANGE TO	REASON
36	5	Eliminate	was	
41	15	Eliminate	Ahead of them	
43	7	Eliminate	got	
44	4	Add	The person who prepared the document	
44	16	Eliminate	is there	
50	12	Eliminate	the Add Her	
50	14	Eliminate	to go to us,	
51	17	Eliminate	was certainly not - Add unusual for	
51	18	Eliminate	would not be unusual Add to be under	
53	4	Eliminate	In suit of,	
53	18	Eliminate	that all of that	
54	2	Add	Mr Jackson after talking to	
61	2	Add	The Mats after Bidid	
71	3	Eliminate	Had checked on this -	
71	5	Add	community after banking	
73	19	Change	Defect to Date	
74	4	After Secretary Eliminate	and Add Mailbox it	

**DEPOSITION OF CHARLES STOUT
IN RE: S. RES. 120**

TUESDAY, APRIL 30, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of CHARLES STOUT, called for examination pursuant to notice of deposition, at 6:08 p.m. in Room 640-A of the Hart Senate Office Building, before CINDY L. SEBO, a Notary Public within and for the District of Columbia, when were present:

MICHAEL P. O'CALLAGHAN, Esq.
Majority Associate Special Counsel
MITCHELL FEUER, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

CONTENTS

WITNESS	EXAMINATION
Charles Stout	
by Mr. O'Callaghan	2
by Mr. Feuer	47
by Mr. O'Callaghan	79
by Mr. Feuer	85

1 PROCEEDINGS

2 EXAMINATION

3 BY MR. O'CALLAGHAN:

4 Q Good afternoon, Mr. Stout. My name is
5 Michael O'Callaghan. And I'm associate specialty
6 counsel for the special committee.

7 I am a counsel for the Majority -- the
8 senators of the Majority of the Committee. With me
9 today is Mitchell Feuer, who is counsel for the
10 Minority senators.

11 This deposition is being conducted pursuant
12 to Senate Resolution 120. The resolution establishes
13 a special committee administered by the Banking
14 Committee to conduct an investigation involving
15 Whitewater Development Corporation, Madison Guaranty
16 Savings and Loan Association, Capital Management
17 Services, Inc., the Arkansas Development Finance
18 Authority and other related matters.

19 This deposition is in connection with
20 ongoing public hearings. There's a possibility
21 you'll be called to testify at these hearings. We're
22 going to ask you a series of questions today.

1 Do you consent to being sworn in over the
2 telephone?

3 A Yes, sir.

4 MR. O'CALLAGHAN: Okay. If you could swear
5 the witness.
6 Whereupon,

7 CHARLES STOUT
8 was called as a witness and, having first been duly
9 sworn, was examined and testified as follows:

10 BY MR. O'CALLAGHAN:

11 Q Okay. If you don't understand a question
12 today, please let me and Mr. Feuer know, we will be
13 happy to rephrase them for you.

14 A Okay.

15 Q If you can't hear us, also ask us to repeat
16 it and I'll be happy to do that also. If you need a
17 break at any time, please let us know as well.

18 We have a stenographer with us today who is
19 preparing a record of questions and answers. The
20 deposition will be treated as Committee
21 confidential.

22 Prior -- if you were to testify at a public

1 hearing, the Committee will attempt to provide you
2 with a copy of your transcript in advance of your
3 testimony.

4 You may be represented by counsel today.
5 Do you understand that?

6 A Yes, sir.

7 Q Okay. Are you represented by counsel
8 today?

9 A No, I'm not.

10 Q Okay. Objections to the form of questions
11 will be noted for the record. Objections on grounds
12 of privilege or relevance may be made. And the
13 Committee chairman may rule on objections where the
14 witness refuses to answer a question.

15 MR. O'CALLAGHAN: Mitchell, did you want to
16 make a statement before we did the background?

17 MR. FEUER: Yes, I did.

18 Mr. Stout, my name is Mitchell Feuer. I'm
19 a counsel on the democratic staff of the Senate
20 Banking Committee. And for today's purposes, I'm
21 representing the democratic senators who serve on the
22 special Whitewater committee.

1 Mr. O'Callaghan made reference to a Senate
2 Resolution. And all of the authority that the
3 special committee has and all the procedures that the
4 special committee uses are governed by that
5 resolution passed by the Senate, it's Senate
6 Resolution 120.

7 And that resolution provides on page 14 at
8 lines 17 and 18 that all depositions shall be
9 conducted jointly by Majority and Minority staff of
10 the special committee.

11 And what that means is that the Majority
12 and Minority have to negotiate with each other and
13 cooperate with each other over the witnesses who are
14 going to be deposed and when those depositions are
15 going to take place.

16 The Minority was given notice only earlier
17 today that this deposition would take place at
18 6:00 o'clock this evening. To accommodate the
19 Majority, the Minority is participating in this
20 deposition. But I want to note on the record that
21 the timing is difficult for the Minority.

22 As you may or may not be aware, the

1 Committee is conducting hearings today and tomorrow
2 on the very subject that I expect Mr. O'Callaghan to
3 ask you about; namely, certain bond underwriting
4 contracts that were awarded to Collins, Locke &
5 Lasater, and Lasater & Company.

6 And for that reason, because we are
7 conducting -- have been conducting hearings today and
8 have to prepare for hearings tomorrow, it's difficult
9 for us to be -- we can't be in two places at once.
10 And it's difficult for us to be conducting this
11 deposition at this time in the midst of that.

12 Mr. O'Callaghan --

13 MR. O'CALLAGHAN: Majority agrees on that
14 point as well.

15 MR. FEUER: Mr. O'Callaghan has represented
16 to me that he thinks that this deposition can be
17 concluded in one hour. And I would say only that if
18 we go beyond that, it may be necessary to adjourn the
19 deposition and conclude it at a later time.

20 It may not be possible to conclude the
21 deposition today if it goes beyond one hour, because
22 of the demands we have with our hearing schedule at

1 the same time with hearings scheduled tomorrow.

2 But having said all that, here we are. So
3 let's begin.

4 BY MR. O'CALLAGHAN:

5 Q Okay. Mr. Stout, as the lawyers are prone
6 to do, I'm also going to make a quick response to
7 Mr. Feuer's statement.

8 Just for the record -- I want the record to
9 show that we were not able to get in contact with you
10 until this morning because I believe you were out of
11 town. Is that right, sir?

12 A Yes, sir.

13 Q Okay. And we appreciate the Minority's
14 accommodations. We understand that we're all in a
15 very tight schedule. I, myself, am in a tight
16 schedule. Although the time is difficult for
17 Minority, it's also difficult for the Majority.

18 MR. O'CALLAGHAN: And as I said, Mr. Feuer,
19 I will endeavor to finish the deposition in an hour.
20 But I'm -- with that said, let's get the deposition
21 moving so we can try to do that within an hour.

22 BY MR. O'CALLAGHAN:

1 Q Okay. Could you please state and spell
2 your full name for the record?

3 A Charles Stout, S-T-O-U-T, C-H-A-R-L-E-S.

4
5

6 Q Okay. Are you currently employed?

7 A I'm semi-retired. I sell real estate
8 part-time.

9 Q And with what company do you work with?

10 A Real Estate Central.

11 Q And where is that located?

12 A Conway, Arkansas.

13 Q Okay. Could you give me a brief
14 description of your employment history during the
15 period January 1, 1982 through October 1986?

16 A Well, I built over 500 houses here in
17 Conway. I bought a condo project in Hot Springs in
18 1982, and we built condos over there. We opened an
19 office in Switzerland. And I traveled back and forth
20 to that for a couple of years. That was it.

21 Q Okay. It sounds like enough. During that
22 time period, did you serve as a member of any state

1 boards?

2 A Yes, sir. I served on the board of the
3 Arkansas Housing Development Agency.

4 Q For -- and what time period did you serve
5 as a board member for the AHDA?

6 A 1980 to 1985.

7 Q Okay. Were you appointed to that position?

8 A Yes, sir, I was.

9 Q And who appointed you?

10 A Frank White.

11 Q Did you serve under any other governor?

12 A Yes, sir, I served under Governor Clinton.

13 Q Okay. And did you hold any titles on that
14 board?

15 A Yes, sir. In 1983, I was chairman of the
16 board.

17 Q And how did you become chairman of the
18 board?

19 A The rest of the board members appointed me.

20 Q Okay. And are all the board members
21 appointed by the governor?

22 A Yes, sir, they are.

10

1 Q Depending on which governor is in office;
2 correct?

3 A Tucker.

4 Q Excuse me?

5 A Did you ask which governor is now in
6 office?

7 Q No, sir. No, sir. I was asking whether it
8 depends on which governor is in office with regard to
9 who's doing the appointing.

10 A Yes, sir.

11 Q Okay. Okay. With regard to your role as a
12 board member of HDA, what were your responsibilities?

13 A Well, the first year I was on the board, I
14 had three executive directors, which was quite a
15 job. The first board member was taken off by
16 Clinton, the second board member quit. And we had to
17 hire the third board member. I conducted all the
18 meetings, and we made the decision and voted on the
19 bond issues, who got them.

20 Q Is that referencing who got the
21 underwriting contract, sir?

22 A Yes, sir.

1 Q And did you also vote on who got the legal
2 counsel work?

3 A Yes, sir, they submitted bids on that.

4 Q So both the underwriters and the law firms?

5 A I don't think the underwriters did. I

6 think the underwriters are regulated by the
7 commission on the cut they get.

8 Q But did the underwriters submit bids of
9 proposals to be included as part of the underwriting
10 syndicator group?

11 A I don't think we did. We selected them by
12 their experience, by the size of them, and like
13 that.

14 Q Okay. Earlier today I had faxed you some
15 documents after you had signed a confidentiality
16 agreement. Did you receive those documents?

17 A Yes, I did.

18 Q I'd like to refer you to a copy of the
19 board minutes I sent you for the board meeting that
20 occurred on March 16th, 1983.

21 A I have it in front of me.

22 Q Great. And then on the third page of the

1 board minutes, the bottom paragraph on that page --

2 A Yes, sir.

3 Q -- it reads "Mr. Stout says that HDA has
4 received eight proposals on the proposed multifamily
5 bond issue; that sometime in the next few days, a
6 multifamily subcommittee meeting will be scheduled to
7 review those proposals to recommend to the full board
8 for a decision on underwriters for this program."

9 After reading that and me reading that to
10 you, does that refresh your recollection as to
11 whether underwriters were required to submit bids and
12 proposals to do business with the agency?

13 A I don't think they were required to support
14 bids at all. That's my recollection of it.

15 Q Do you know what the board minutes are
16 referring to there?

17 A No, I don't.

18 Q Okay.

19 A See this happened 13 years ago. I've had a
20 stroke since then. I don't remember a lot of
21 things.

22 Q Okay. With regard to the decisionmaking

1 process for choosing underwriters to do bond
2 underwriting for the agency, was a process used to
3 pick a system that was based on merit?

4 A Yes, based on merit, size, stability, was
5 able to do the issue, so forth.

6 Q While you were a member of the HDA board,
7 did you have any interaction with anyone in the
8 governor's office?

9 A Yes, I did.

10 Q Who in the governor's office did you have
11 interaction with?

12 A Bob Nash.

13 Q And who is Bob Nash?

14 A He was on the governor's staff over there.
15 We had selected underwriters for an issue, and he
16 called over and asked me to cut in Lasater for 15
17 percent. I said Bob that's not right, the governor's
18 office is not to interfere with this agency. And he
19 said, well, that's the way we want it anyway.

20 Q Did he say why he wanted you to cut Lasater
21 in for 15 percent?

22 A Well, he was a local underwriter and rather

1 inexperienced, that was what I didn't like about it.
2 And he also asked us to cut him in on any future
3 issues for 15 percent. I don't remember what percent
4 we cut him in for, but we did include him in future
5 issues.

6 Q So you did include him in future issues?

7 A Yes, sir.

8 Q And that was --

9 A Where he did about an issue a month, as
10 quick as we could get them rated in New York and get
11 them issued. You know, financing was rather tight in
12 1983.

13 Q And were they included on the future
14 issues -- are you still there, sir?

15 A Yes, sir.

16 Q Okay. Were they included in the future
17 issues because of the directive that you received
18 from Bob Nash in the governor's office?

19 A Yes, sir. He called over there about 30
20 minutes before a board meeting, and I had to go in
21 and tell the rest of the board members what happened.

22 Q Who were the other board members at the

1 time?

2 A Well, let's see. Mort Hardwicke. I put
3 Mort Hardwicke on the line when he called over there
4 and let Mort listen to him. Tommy Edwards, George
5 Wright, Betty Walker and Mr. Mahlon Martin.

6 Q Okay. You were in the office when he
7 called?

8 A I was in the office with the Arkansas
9 Housing Development Agency about 30 minutes before
10 the scheduled time for a regular board meeting to
11 pass it on to the underwriters.

12 Q And Mr. Hardwicke was in the room with you?

13 A Yeah. I think I told Mort to pick up the
14 phone and hear this, because it really surprised me
15 when Bob called over.

16 Q And did Mr. Hardwicke pick up the other
17 phone?

18 A I think he did. Don't quote me on this,
19 but as I remember, I think he did.

20 Q But unfortunately, Mr. Stout, because this
21 is a deposition, you're being sworn. We do quote
22 you. So if you could just give me the best

16

1 recollection that you have.

2 A The best recollection I had was I asked him
3 to pick up the phone and he did.

4 Q Did he participate in the phone
5 conversation?

6 A No, I think he just listened.

7 Q Okay. Now, when you told Mr. Nash that it
8 wasn't right to do this, what reaction did he have?

9 A He said, well, that's the way we want it
10 anyway.

11 Q And when he said that's the way we want it,
12 who is he referring to?

13 A I have no idea.

14 Q Did you ask him if the governor was asking
15 him to do this?

16 A No, I didn't.

17 Q Was it your understanding that this was a
18 directive from the governor's office on -- or excuse
19 me.

20 Was it your understanding that was a
21 directive coming from the governor?

22 A I had no idea.

1 Q Okay. But Mr. Nash worked for the
2 governor; isn't that right?

3 A Yes, sir.

4 Q Do you recall he was a senior economic
5 advisor -- a senior adviser for economic development?

6 A I think he was. I don't really know what
7 his title was.

8 Q Okay. Other than what you told us about
9 that conversation where he told you that he had -- he
10 wanted you to cut Lasater in to the underwriting deal
11 that you were considering, is that right --

12 A Yes, sir.

13 Q -- had you already chosen an underwriting
14 team for that offering?

15 A I think we had. I know we had.

16 Q Okay. I supplied you with some documents,
17 as I mentioned earlier. And I'd like to refer you to
18 board minutes from April 19th.

19 A All right.

20 Q And within those board minutes, I'd like to
21 refer you to the third page of that document.

22 A All right.

1 Q And that paragraph reads, "upon
2 Mr. Hardwicke's request for further business,
3 Mr. Wright made a motion that Collins, Locke &
4 Lasater be added to the underwriting team for the
5 agency's proposed 1983 multifamily issue in order to
6 spread around and include more local Arkansas
7 underwriters on this issue. Mr. Edwards seconded the
8 motion, and the board approved the same."

9 This is from the April 19th meeting. Do
10 you recall whether or not the underwriting and issue
11 was the one referred to in the April 19th minutes?

12 A No, I was in Europe at the time that this
13 meeting took place. I didn't attend this meeting, I
14 don't think.

15 Q Okay. So this was a different underwriter
16 that you remember?

17 A The Collins, Locke & Lasater were a
18 different firm than the Dan Lasater firm as I
19 recall.

20 Q Okay. I'd like to -- I can represent to
21 you that they were -- that Collins, Locke & Lasater
22 was Mr. Lasater's firm.

1 A Was it? Okay.

2 Q Okay. I'd like you to please take a look
3 at the board minutes from February 17th, 1983. It's
4 a couple meetings before the one I just referenced.

5 A All right.

6 Q And within these board meetings, the second
7 paragraph on the February 17th, 1983 minutes reads,
8 "the Chairman called the meeting to order and stated
9 the purpose of the meeting was to discuss a proposed
10 solution to the problems with the current single
11 family bond program. After discussions, it was
12 determined that the composition breakdown of
13 underwriters in this proposal be directed 6 as
14 below."

15 And it listed a number of firms, Dabbs
16 Sullivan Division of G.K. Baum Company, Blyth
17 Eastman, Paine Webber. It appears to be -- they
18 appear to be bond -- the lead managers on the deal
19 for 60 percent.

20 And then there's a second group of firms,
21 appears to be local firms, T.J. Raney & Sons,
22 Stephens, Inc., Collins, Locke & Lasater, Inc., for

20

1 13 and 1/3 percent each.

2 Do you recall being at this meeting?

3 A Yes, vaguely.

4 Q Okay. And is this the meeting
5 where -- that you were called by Bob Nash just before
6 it started?

7 A I have no idea.

8 Q Do you recall whether Collins, Locke &
9 Lasater had participated in any HDA bond deals prior
10 to Mr. Nash's phone call to you?

11 A I don't think they had. No, huh-uh, not
12 while I was on the board.

13 Q When Mr. Nash told you to cut in the
14 Lasater firm for -- in the bond offering that you
15 were about to discuss in the meeting, did you tell
16 them that HDA would do it, the board would do it?

17 A Yeah, I did.

18 Q Okay. And did the board actually include
19 Collins, Locke & Lasater as a member of an
20 underwriting syndicate for that issue?

21 A Yes, sir.

22 Q Do you recall specifically what issue that

1 was?

2 A No, I don't.

3 Q Okay. And you stated earlier that the
4 board continued to include Collins, Locke & Lasater
5 because of Mr. Nash's directive; is that right?

6 A Yes, sir.

7 Q You said Mr. Hardwicke was in the room with
8 you and picked up the phone when you spoke with
9 Mr. Nash, you thought. Was there anyone else in the
10 room?

11 A I don't think there was anyone in there but
12 Hardwicke and I. And he didn't talk to Bob, I don't
13 think; he just listened.

14 Q Okay. Did you know Bob Nash before this
15 phone call?

16 A Yes, I did. He's a former board member of
17 Arkansas Housing Development Agency. I know him
18 well.

19 Q Are you certain that it was Mr. -- so
20 you're certain that it was Mr. Nash that you spoke
21 to?

22 A I'm positive.

22

1 Q There's no doubt in your mind?

2 A No, I know Bob's voice anywhere.

3 Q Okay.

4 A He told me who he was.

5 Q How long was the conversation?

6 A About three or four minutes.

7 Q Okay. Was -- did anyone else from the
8 governor's staff participate in the discussion?

9 A No, they didn't.

10 Q Okay. After the first conversation with
11 Mr. Nash, did he have any subsequent conversations on
12 this subject?

13 A No, I didn't.

14 Q Did you and Mr. Hardwicke discuss the phone
15 call after you hung up with Mr. Nash?

16 A Yes, we did, at length.

17 Q What did you discuss?

18 A Well, I told Hardwicke I thought it was
19 wrong for the governor's office to tell us how to run
20 our business over there. We had to convince the
21 other board members to cut Lasater in.

22 Q What was Mr. Hardwicke's response?

- 1 A I don't remember.
- 2 Q Was he a friend of the governor's?
- 3 A Yes, he was.
- 4 Q Governor's Clinton; is that right?
- 5 A Yes, sir.
- 6 Q Did he relate to you that he thought it was
- 7 wrong as well?
- 8 A No, he didn't.
- 9 Q He thought it was okay to do this?
- 10 A I suppose. I don't think he said
- 11 anything.
- 12 Q Okay. And why did you think it was wrong
- 13 to do this?
- 14 A Well, the governor's office doesn't
- 15 interfere with the directors of the Arkansas Housing
- 16 Development Agency and tell them what underwriter to
- 17 use. That business is the director's business,
- 18 nobody else's.
- 19 Q Is that supposed to be an independent
- 20 process from the governor's office?
- 21 A Yes, sir.
- 22 Q Is that to protect taxpayers from undue

- 1 political influence?
- 2 A I suppose. I don't know.
- 3 Q Okay. Do you recall anything else from the
- 4 discussion you had with Mr. Hardwicke after the
- 5 conversation with Mr. Nash after you hung up the
- 6 phone?
- 7 A I beg your pardon?
- 8 Q Do you recall anything else from the
- 9 conversation -- you said you spoke at length with
- 10 Mr. Hardwicke about this. What else --
- 11 A Well, we discussed it for a couple of
- 12 minutes, and what we had to do, we had to get the
- 13 board, get this to the rest of the board members
- 14 before the board meeting.
- 15 Q What did you decide that you had to do?
- 16 A Go talk to the board members individually.
- 17 Q Did you each talk to each of the other
- 18 board members individually or did you -- did you divy
- 19 up the other members of the board and who to speak
- 20 with?
- 21 A Would you say that again?
- 22 Q Sure. Did you each go and speak with the

1 other board members or did --

2 A I don't remember.

3 Q Okay. And did you discuss the strategies
4 of how you were to convince them to go along with
5 putting Collins, Locke & Lasater as a member of the
6 bond underwriting syndicate?

7 A I don't remember that either.

8 Q Did you tell the other board members that
9 you had gotten this directive from the governor's
10 office?

11 A I told him I got it from Bob Nash.

12 Q So the other board members were aware of
13 this as well?

14 A Yes, sir.

15 Q And this occurred in 1983; sir?

16 A Yes, sir.

17 Q Who is the acting or executive director at
18 the time?

19 A Linda Trent, I think.

20 Q Did you have any discussions with her about
21 the phone call with Mr. Nash and the director?

22 A I don't believe I did.

1 Q Do you recall how much the -- that issue
2 was for?

3 A No, I don't. I really don't.

4 Q And how much money it was worth to the
5 underwriters?

6 A No. I can look it up. I think it was for
7 26 million.

8 Q Okay. Are you referring to a document
9 right now, sir?

10 A Yes, sir.

11 Q Okay. Which document are you referring to?

12 A The bottom of the page on page 2 I think.

13 Q Okay. Is that the -- does that -- can you
14 read the Bates stamps on it, the numbers?

15 A DKSNO26126.

16 Q And that's the 1983 series A?

17 A Yes, sir.

18 Q 26,365,000 single family issue --

19 A Yes, sir.

20 Q -- which lists Paine Webber, Stephens, T.J.
21 Raney, George K. Baum and Lasater?

22 A Yes, sir.

1 Q And your recollection was this was the
2 first issue they participated in?

3 A I think it was.

4 Q Okay. Did Mr. Nash direct you to include
5 any other underwriting firms during that phone
6 conversation?

7 A No, sir.

8 Q Other than the general rationale that you
9 gave me earlier, did he give you any other reasons
10 why he wanted Lasater included?

11 A No.

12 Q Did he identify the firm by referring to
13 Dan Lasater's firm?

14 A I think he did.

15 Q Did Mr. Nash seem relaxed to you or nervous
16 or in a hurry or anything? Do you recall what his
17 demeanor was over the phone?

18 A He's always relaxed.

19 Q Do you recall what the other board members
20 reactions were to your relating to them that Mr. Nash
21 had called directing that the board include Lasater's
22 company in HDBA bond offerings?

1 A No, I don't. But they obviously agreed
2 with it, because we included them in the issue.

3 Q Mr. Stout, is there anyone there with you
4 right now?

5 A My son, Mike.

6 Q Okay. We have to identify him for purposes
7 of the transcript.

8 A Okay.

9 Q And is he an attorney?

10 A No, he isn't. He's a real estate man.

11 Q Okay. Can you hold for just a moment, sir?

12 A Yes, sir.

13 Q Thanks. If we get cut off, I'll call you
14 right back. I'm not sure how this hold works, okay?

15 A Okay.

16 (Pause.)

17 BY MR. O'CALLAGHAN:

18 Q Mr. Stout?

19 A Yes, sir.

20 Q I'm right here. I had you on mute. The
21 procedures the Committee operates under, we usually
22 only allow the witness and the witness' counsel to be

1 present during depositions due to the confidential
2 nature of the inquiry.

3 And I did not -- I wasn't aware that there
4 was anyone present there with you when we began the
5 deposition.

6 Do you have an objection if we continue the
7 deposition without your son there?

8 A I have no objection.

9 Q Okay.

10 A He's leaving the room now.

11 Q Okay, thank you very much. Okay. And
12 before we end, I might ask him to come on the record
13 and ask him if he'll keep the contents of what he
14 heard today confidential.

15 A Mike?

16 Q Yes, sir.

17 A His name is Mike. Come in and verify that
18 what you heard is confidential.

19 MR. O'CALLAGHAN: Mr. Stout, could you
20 state your full name for the record and identify
21 yourself so we can identify all the parties?

22 MR. M. STOUT: Michael Stout, M-I-C-H-A-E-L

30

1 S-T-O-U-T.

2 MR. O'CALLAGHAN: Okay. Mr. Stout, the
3 Committee would like that you keep the contents of
4 this deposition confidential. Do you agree to that?

5 MR. M. STOUT: There's no problem. All
6 I've been doing is coming and going. He's in my
7 office.

8 MR. O'CALLAGHAN: Okay. Thank you very
9 much.

10 MR. M. STOUT: All right.

11 BY MR. O'CALLAGHAN:

12 Q Okay. Mr. Stout, after you approached each
13 of the board members about including Lasater's firm
14 in HD offerings, did you have any further
15 conversations with them on the subject?

16 A I don't think so. Mort was vice chairman,
17 I think he approached them. I don't think I
18 approached them. I don't remember.

19 Q When you say "approached them," who are you
20 referring to?

21 A Board members --

22 Q Okay.

- 1 A -- Mort Hardwicke.
2 Q So he was actively involved in this process
3 of including Lasater's company?
4 A He heard the conversation from Bob Nash.
5 Q And then he related the contents of that
6 conversation to other board members?
7 A Yes, sir.
8 Q And he went along with including Lasater &
9 Company in the HDBA bond offerings?
10 A Yes, sir.
11 Q Did Mr. Nash ever relate to you that this
12 request was being done for the purposes of paying
13 back Mr. Lasater for any political contributions?
14 A No, sir.
15 Q Did you make any inquiry of that sort?
16 A No, I didn't.
17 Q Did Mr. Hardwicke -- or do you know if
18 Mr. Hardwicke had any conversations with the governor
19 on this subject?
20 A I have no idea. I didn't ask.
21 Q And he never told you?
22 A No.
-

- 1 Q Do you know who George Wright is?
2 A Yes, I do.
3 Q Did you have any discussions with
4 Mr. Wright with regard to the inclusion of Lasater &
5 Company in bond deals?
6 A Not to my memory.
7 Q Was he an HDA board member?
8 A Yes, he is.
9 Q Do you know if he's a personal friend of
10 Mr. Clinton's?
11 A Yes, he is. They were boyhood friends.
12 Q Grew up in the same town together?
13 A Yes, sir.
14 Q Was he approached about Mr. Nash's
15 conversation -- about Mr. Nash's directive to include
16 Lasater & Company in the HDA bond deals?
17 A Not that I recall. I don't remember
18 mentioning it to him.
19 Q Okay. Do you know if anyone else did?
20 A I'm sure that Hardwicke did.
21 Q Why are you sure that Hardwicke did?
22 A Well, he talked to all the board members

1 before the meeting.

2 Q And he told you he did that?

3 A I saw him do it.

4 Q Where did he do it?

5 A In the office there.

6 Q In the office where you took the phone call
7 from Mr. Nash?

8 A Yes.

9 Q Did he call them in to make this
10 announcement?

11 A One at a time.

12 Q How were they summoned to the office, do
13 you recall?

14 A They were all standing around the hallways
15 waiting for the meeting to start. He just casually
16 walked up to each one and told them what happened.

17 Q Okay. Was this behind closed doors or --

18 A No, no.

19 Q Okay. Did you have any contacts with
20 anyone else at the governor's office with regard to
21 Lasater & Company or Dan Lasater?

22 A No, I didn't.

34

1 Q Did any other HDA board members?

2 A I have no idea.

3 Q Do you know if any of the board members had
4 discussions about Mr. Lasater or any of Mr. Lasater's
5 companies with the governor?

6 A No, I don't.

7 Q Did anyone try to make an appeal -- are you
8 still there, sir?

9 A Yes, sir.

10 Q Sorry. The phone is making beeping
11 noises.

12 Did anyone try to take an appeal or make an
13 appeal to anyone associated with the governor or the
14 governor's office with regard to the directive you
15 received from Bob Nash to include Collins, Locke &
16 Lasater in the underwriting -- as one of the
17 underwriters for HD offerings?

18 A Not to my knowledge. But I see a letter
19 here from Stephens & Company where they were selected
20 as an underwriter, and they wrote a letter to the
21 agency and backed out of it because Lasater had been
22 added.

1 Q Okay. The letter you're referring to is an
2 April 28th, 1983 Stephens, Inc. letter?

3 A Yes, sir.

4 Q It's addressed to Mr. Charles Stout, Stout
5 Realty, and it's signed by Gail Wolborn?

6 A Yes, sir.

7 Q Do you recall receiving that letter?

8 A No, I don't.

9 Q Okay. Do you recall, did you have any
10 discussions with anyone from Stephens, Inc. about
11 Lasater & Company being added in as a member of a
12 bond offering underwriting team?

13 A I don't recall ever discussing it with
14 them.

15 Q Okay. Do you recall if Linda Trent ever
16 brought concerns that Stephens had about Lasater &
17 Company being included in a bond offering to your
18 attention?

19 A No, I don't.

20 Q Do you recall whether she had a meeting
21 with Charles Crow from Stephens, Inc.?

22 A Not to my knowledge.

1 Q Okay. Do you know who Charles Crow is?

2 A I don't remember who he is.

3 Q Okay. But you clearly remember the phone
4 call from Mr. Nash; is that right?

5 A Yes, sir. The representative from Lasater,
6 his name was Michael something.

7 Q Was it Michael Drake?

8 A Yeah, that's who it was.

9 Q Did you have any discussions with him about
10 Mr. Nash's call?

11 A No, I didn't.

12 Q Do you know whether he had any discussions
13 with anyone in the governor's office about being
14 included in HDA deals?

15 A No, I don't.

16 Q So the subject never came up with him?

17 A No, huh-uh.

18 Q Did you have any discussions with anyone
19 else at Lasater & Company?

20 A No, I know no one over there.

21 Q Did you know who Dan Lasater was at the time?

22 A No, I didn't.

- 1 Q Did you ask Mr. Hardwicke who he was after
2 the directive came in from Mr. Nash?
3 A No, I didn't.
4 Q Did you discuss this phone call with anyone
5 other than Mr. Hardwicke and the other members of the
6 HDA board?
7 A Not at the time I didn't, only Hardwicke.
8 Q Did you subsequently?
9 A Yes, I did.
10 Q And who did you discuss it with?
11 A Frank White and Tom Nabholz.
12 Q What was the second name?
13 A Tom Nabholz.
14 Q Could you spell that?
15 A N-A-B-H-O-L-Z.
16 Q Okay. And who's Tom Nabholz?
17 A He owns the building company here in
18 Conway.
19 Q Did you speak to anyone else?
20 A No.
21 Q During your tenure as an HDA board member,
22 did you become familiar with who Dan Lasater was?
-

- 1 A Yes, I did.
2 Q How did you become familiar with who he
3 was?
4 A Reading the newspaper.
5 Q Do you recall whether when you were an
6 HDA board member, whether you read any accounts of
7 testimony given that Dan Lasater used cocaine?
8 A Yes, I do.
9 Q What was your reaction to that?
10 A I was surprised.
11 Q Did you bring that to the attention of
12 anyone at AHBA or ADFA or HDA?
13 A I don't remember whether I did or not.
14 Q While you were a member of the board, do
15 you recall whether or not you had any knowledge that
16 Mr. Lasater had lent Roger Clinton, the governor's
17 brother, 8,000 to pay off drug debts?
18 A I read that in the newspaper.
19 Q Do you recall when you read that?
20 A No, I don't.
21 Q Were you still a member of the HDA board?
22 A I don't recall.

1 Q Okay. Have you ever heard that Mr. Lasater
2 provided Roger Clinton, the governor's brother, with
3 a job at the governor's request?

4 A No, I haven't.

5 Q Okay. Have you ever had any discussions
6 with the governor with regard to HDA bond
7 underwritings?

8 A No, I don't think I have.

9 Q And how long did you serve at HDA under
10 Governor Clinton's Administration?

11 A One year. I don't think I attended a board
12 meeting in 1984, not to my knowledge.

13 Q Okay. So I had asked you earlier how long
14 you had been on the HDA board, I think you said 1980
15 to 1985.

16 A Yes, sir.

17 Q So 1983 to '85 would have been during
18 Mr. Clinton's Administration?

19 A Yes, sir.

20 Q So do you recall -- were you a board member
21 at that time, or was it 1983? Just so we're clear.

22 A I was a board member from 1980 to 1985, but

40

1 I didn't attend any meetings in 1984.

2 Q Okay. Why was that?

3 A I was busy with that condo project over in
4 Hot Springs.

5 Q Okay. I'd like to have you take a look at
6 a memorandum that I provided to you. It's on the
7 office of the governor's stationery.

8 A I have it here.

9 Q It's probably a little difficult to read.
10 It has Bates stamps on the bottom, and the middle of
11 the page, it says DKSNO26453, I believe.

12 A I'm looking at it.

13 Q Okay. And it reads on -- it's all
14 handwritten notes, and there's numerous sets of
15 handwriting that appears there. It's dated 1/24/86,
16 from Nash, subject ADFA.

17 And I'm going to read the note quickly. It
18 reads, "Wooten told me that he got his reappointment
19 letter to ADFA board. This reminded me that George
20 Wright is really interested in being reappointed to
21 ADFA board.

22 "Said only want it to be a short period of

1 time, one to two years. Said would resign if BC
2 needed the slot during his new appointment."

3 Then the next paragraph reads, "if BC does
4 not reappoint George, he should call and tell him --
5 call and tell him. George is not a strong member but
6 do anything BC wants done."

7 Do you recall whether Mr. Wright ever had
8 any conversations with the governor with regard to
9 HDA bond offerings?

10 A No, I don't.

11 Q Okay. Were you under the impression that
12 Mr. Wright would do anything that Mr. Clinton wanted
13 done in connection with his work at HDA?

14 A I knew they were close friends, but I
15 didn't know that he would do anything he wants done.

16 Q Okay. I'd like to have you take a look
17 again at the February 17th, 1983 board minutes.

18 A All right.

19 Q And if you could look at that in
20 conjunction with the document. You referenced
21 earlier that lists the different bond underwriters?

22 A Yes, sir.

1 Q Let me get the Bates stamp for you. I
2 believe you referred to Bates number DKSN026126; is
3 that right?

4 A Yes, sir.

5 Q And it lists there on -- the list which is
6 entitled bond issue 78 to '86, 1978 to 1986, revised
7 October. The last entry there reads 1983A, amount
8 26,365,000, single family. Then it lists Paine
9 Webber, Stephens, T.J. Raney, George K. Baum and
10 Lasater.

11 Then if you look at the February 17th
12 minutes, it lists the same -- I believe it lists the
13 same firms, Dabbs Sullivan Division, G.K. Baum, Blyth
14 Eastman, Paine Webber, T.J. Raney, Stephens and
15 Lasater.

16 Looking at these two documents together,
17 does that help you remember whether or not the offer
18 they were included in was the one that was discussed
19 in the February 17th subcommittee meeting?

20 A No, it doesn't. I just don't remember.

21 Q Okay. But you do remember it was an issue
22 for around \$26 million?

- 1 A About that, yes.
2 Q And it was a single family issue?
3 A I think so, yes.
4 Q So did you ask Mr. Nash how he came up with
5 the percentage of 15 percent that he wanted the
6 Lasater firm to get?
7 A No, I didn't. But he was a former board
8 member, I guess that's where he got it.
9 Q So he knew generally what local
10 underwriters would get as a cut?
11 A Yes, sir. I suppose.
12 Q Other than saying that's the way it's going
13 to be, did Mr. Nash give you any other
14 rationalization for why he was asking you to do this?
15 A No, I don't recall.
16 Q Were you surprised to get the phone call?
17 A Yes, I really was.
18 Q Why were you surprised to get the call?
19 A Well, because the governor's office never
20 entered into our business up to this point.
21 Q So this is the first knowledge you have a
22 governor's office --
-

- 1 A Telling us what underwriter to use.
2 Q You said you were away for the April 19th
3 board meeting?
4 A I think I was in Europe at that time the
5 best I remember. It's been so long, I don't
6 remember.
7 Q Okay. Was that one of the trips to
8 Switzerland?
9 A No, a vacation.
10 Q Okay. Did you -- do the events that
11 transpire to that meeting, were they related to you
12 at a later date?
13 A I don't think so. I don't recall.
14 Q So you didn't hear that Collins, Locke &
15 Lasater was added on later on to an underwriting
16 group that had already been chosen?
17 A I don't recall.
18 Q Okay. Just to be clear on this. It's your
19 testimony that Mr. Nash did not recommend that you
20 hire any other underwriters except for Lasater &
21 Company; is that right?
22 A That's true.

1 Q But Mr. Lasater's company I think is how
2 you said it was presented?

3 A Yes, sir.

4 Q Now, that was during that conversation.
5 Are you aware of any other time when a directive from
6 the governor's office came down to include other
7 companies as part of underwriting syndicates for
8 HDA offerings?

9 A I am not.

10 Q Did you ever hear that the governor's
11 office requested that specific underwriters be
12 included in a state police radio offering that
13 occurred in 1985?

14 A No, sir, I don't.

15 Q Do you have any knowledge of that
16 transaction --

17 A No, sir.

18 Q -- or the bond offering to finance the
19 system?

20 A No.

21 Q Okay. Did you ever have any conversations
22 with any of the HDA staffing members with regard to

1 Mr. Lasater's reported drug use?

2 A I don't remember if I did or not.

3 Q Other than your discussion with Mr. Nash,
4 where you told him you thought it was wrong to have
5 the governor's office to tell you who to put on the
6 underwriting syndicates, did you express that opinion
7 to anybody else?

8 A I expressed it to Mr. Hardwicke.

9 Q Anyone other than that?

10 A I don't recall.

11 Q I have one more question.

12 Are you aware of whether the governor's
13 office tried to bring influence to bear with regard
14 to hiring any of the law firms that the agency used?

15 A No, I don't think they did. They submitted
16 bids and we selected like that.

17 MR. O'CALLAGHAN: Okay. I have no further
18 questions at this time.

19 And, Mr. Stout, just so you know how the
20 process works. Normally the Majority counsel begins
21 with the questioning and then Minority has a chance
22 to follow-up, then we go back and forth if we feel

1 the need. But hopefully we will be able to finish up
2 quickly. And I leave you to Mr. Feuer's
3 examination.

4 EXAMINATION

5 BY MR. FEUER:

6 Q Mr. Stout, this is Mitchell Feuer. I'm
7 going to ask you some questions as well covering the
8 same areas that Mr. O'Callaghan has already asked you
9 about.

10 Do you feel that you need a break at this
11 time, or would you rather that we keep going in other
12 words?

13 A Let's finish it.

14 Q Would you prefer to take a short break or
15 would you prefer that we keep going right now?

16 A Keep going.

17 Q Okay. Mr. Stout, you served on the Housing
18 Development Agency Board while Frank White was
19 governor of Arkansas; is that correct?

20 A Yes, sir.

21 Q Which underwriting firms participated in
22 the agency's bond issues while Frank White was

1 governor of Arkansas?

2 A As I recall, it was E. F. Hutton & Company
3 and T.J. Raney & Sons and maybe Dabbs Sullivan. I
4 don't recall. I was new on the board, and I was just
5 getting trained.

6 Q Mr. Stout, I have a document in front of me
7 that has not been faxed to you. I will identify it
8 for the purposes of the record, it's DKSNO26137.
9 That's how we can find it again later.

10 MR. O'CALLAGHAN: I think actually I faxed
11 him a similar document.

12 MR. FEUER: Do we have the numbers on
13 that?

14 MR. O'CALLAGHAN: Mr. Stout, I'm sorry to
15 interrupt.

16 Do you have a multipage document that lists
17 all the different offerings that were done? It's got
18 a Arkansas Development Finance Authority title on
19 top. Then it begins with the single family mortgage
20 revenue bonds.

21 It lists the underwriters, lead listed
22 first, and then authority special tax counsel. And

1 it's got Bates on it 026137 is the first page.

2 THE WITNESS: I've got 68 and 69. I don't
3 think I have 67.

4 BY MR. FEUER:

5 Q It's actually page 26137. Do you have that
6 a document where the first page is 26137?

7 A I don't think I do.

8 Q Mr. O'Callaghan -- excuse me, Mr. Stout,
9 I'm going to describe to you a document this has not
10 been -- this has not been faxed to you. I'm going to
11 identify it.

12 Again, it's -- the document, the first page
13 is numbered DKS026137. And it says at the top
14 Arkansas Development Finance Authority, bond
15 underwriters, bond counsel and special tax counsel.

16 And it lists starting with 1978A, issues of
17 single family mortgage revenue bonds. And the issues
18 that -- the first five issues running down the
19 left-hand column are 1978A, 1979A, 1979A, 1980A and
20 1982A.

21 And the underwriters listed for all of
22 those bonds for those issues respectively for the

50

1 first one is E.F. Hutton, Stephens, Inc. T.J. Raney &
2 Sons. For the second one, 1979A, is E.F. Hutton,
3 Stephens, Inc., T.J. Raney & Sons. For the third
4 one, which is also labeled 1979A, is listed E.F.
5 Hutton, Stephens, Inc. T.J. Raney & Sons and Merrill
6 Lynch. The fourth one, 1980A, is listed E.F. Hutton,
7 Stephens, Inc. and T.J. Raney & Sons. And the fifth
8 one 1982A, the underwriters listed are E.F. Hutton
9 Company, and Stephens, Inc. and T.J. Raney & Sons.

10 And my question is, having heard me read
11 off that list, do you have any reason to think that
12 that list is not accurate, and that the only firms
13 that had participated in AHDA single family bond
14 underwriters prior to 1983 were the firms that I
15 listed?

16 A No, I don't doubt you at all.

17 Q Mr. Stout, who decides what underwriters
18 will participate in AHDA bond offerings?

19 A The board members.

20 Q Does the governor of Arkansas get a vote?

21 A No, he doesn't.

22 Q Can the governor of Arkansas veto a

1 decision made by the AHDA board regarding which
2 underwriters to use?

3 A I suppose he gets a copy, but he
4 doesn't -- he doesn't interfere with the selections.

5 Q Under -- is it correct that under the law,
6 he has no authority to overturn a decision by the
7 AHDA board to hire a certain group of underwriters?

8 A I'm not familiar with that law.

9 MR. O'CALLAGHAN: You're not a lawyer
10 either, are you, sir?

11 THE WITNESS: No.

12 BY MR. FEUER:

13 Q Mr. Stout, was it your understanding during
14 the period of time that you served on the AHDA board
15 that the governor could veto the board's decision
16 regarding which underwriters to hire?

17 A I have no idea. I was never made aware of
18 that.

19 Q Did the agency use a greater number of
20 underwriters after 1983 than it had used before 1983?

21 A Yes. In 1982, Hutton did one for us, and
22 our interest rates were real high. And we went over

1 to Dabbs Sullivan and got a reissue and got the
2 interest rates lowered. Then we started using
3 Merrill Lynch and some others that were reputable
4 underwriters.

5 Q Why did the agency start using a greater
6 number of underwriters?

7 A You got me.

8 Q Was there ever any discussion among the
9 AHDA board or between the board and the staff about
10 whether the agency should use a greater number of
11 underwriters?

12 A No. We were given a line share to E.F.
13 Hutton before 1983. And I think we just kind of
14 started splitting it up with reputable underwriters.
15 Stephens was a reputable underwriter. And T.J. Raney
16 & Sons was, and Dabbs Sullivan was.

17 Q Did Mr. Hardwicke say anything about it
18 being better for the agency if the agency used a
19 greater number of underwriters?

20 A I don't recall.

21 Q How about Mr. Wright?

22 A I don't recall that either.

1 Q When Governor Clinton came back into office
2 in 1983 after defeating Frank White in 1982, did
3 Clinton's Administration have a policy that the State
4 of Arkansas should use a greater number of
5 underwriters?

6 A Not to my knowledge.

7 Q Did he have a policy that the state should
8 include local underwriters in state bond offerings as
9 much as possible?

10 A Not to my knowledge.

11 Q When you spoke on the phone to Mr. Nash,
12 was he making a suggestion that the agency should
13 consider including the Lasater firm as a bond
14 underwriter?

15 A I took it as a suggestion.

16 Q Mr. Nash wasn't your boss, was he?

17 A No, he wasn't. But I worked closely with
18 him with the executive directors.

19 Q You were serving as a board member at that
20 time, weren't you?

21 A Yes, sir.

22 Q And you had been appointed by Frank White?

1 A Yes, sir.

2 Q And did that appointment have to be
3 approved by the Arkansas legislature?

4 A I'm not sure. I don't know.

5 Q Was Mr. Nash in a position to fire you?

6 A No.

7 Q Was Governor Clinton in a position to fire
8 you?

9 A No.

10 Q You had a term, and you were entitled to
11 serve until the end of that term, weren't you?

12 A Yes, sir.

13 Q So Bob Nash wasn't really in a position to
14 instruct you to do anything, was he?

15 A I suppose he wasn't.

16 Q He wasn't in a position to direct you to do
17 something, was he?

18 A No, but when he called, we usually did it.

19 Q Was that because when he called, he usually
20 had a good idea?

21 A Who knows.

22 Q When you had that conversation with

1 Mr. Nash, could you have told him to go to hell?

2 A I should have. No. When the governor's
3 office calls, it's a pretty strong suggestion, and
4 that's the way we took it.

5 Q But the governor's office doesn't pick bond
6 underwriters for the agency, does it?

7 A No, they're not supposed to.

8 Q Did they pick bond underwriters for the
9 agency in this case, or did they make a suggestion to
10 you that this was a local firm that should be
11 included?

12 A You can take it either way you want. I
13 don't know.

14 Q Mr. Stout, I'm going to ask you to take a
15 look at the board of directors meeting minutes for
16 February 17th, 1983. Do you have those? Do you have
17 those?

18 A I'm looking for them.

19 Q And I'll tell you, I believe that you
20 should have. There are two documents that -- two
21 sets of minutes that both have the date February
22 17th, 1983 on them. One is a one-page --

1 A I've got it.

2 Q -- minute, and that says at the top
3 minutes, Arkansas Housing Development Agency
4 subcommittee meeting.

5 A Yes.

6 Q And there's another document that's five
7 pages long. It says minutes, Arkansas Housing
8 Development Agency, board of directors meeting,
9 February 17th, 1983.

10 So we've got minutes of a subcommittee
11 meeting. And we've got minutes of a board of
12 directors meeting, and they both took place on the
13 same date, February 17th, 1983.

14 Do you have those two things?

15 A I'm still looking for the second one.

16 MR. O'CALLAGHAN: You know, I don't think I
17 sent that.

18 THE WITNESS: I don't think I have a second
19 one.

20 BY MR. FEUER:

21 Q Okay. Mr. Stout, let me describe to you
22 what I have. I have a five-page document. It says,

1 minutes, Arkansas Housing Development Agency, board
2 of directors meeting, February 17th, 1983.

3 It has a signature at the end, on the last
4 page, Charles Stout, Chairman, and there's a
5 signature above that.

6 Let me read to you a little bit from the
7 first page, it says, "the board of directors of the
8 Arkansas Housing Development Agency met for the
9 regular monthly meeting on Thursday afternoon,
10 February 17th, 1983 in the agency's conference room.
11 Board members present were Chairman Charles Stout,
12 Vice Chairman Mort Hardwicke, Secretary Robert
13 Hammerschmidt, Tommy Edwards, Betty Walker, Fred
14 Dacus" did I say that right? Is it Dacus --

15 A Yes, sir.

16 Q -- " Mahlon Martin and George Wright."

17 And I'm going to skip to page 3 of these
18 minutes for a moment. And the second full paragraph
19 on page 3 reads, it begins as follows,
20 "Mr. Hammerschmidt mentioned the problems we have
21 had in the single family bond issue and the agency's
22 attempts to find a solution to make the program

1 work. He called on Linda Trent to present to the
2 board a proposal received by the agency."

3 And then I'm going to skip ahead a little
4 bit. It says, "Ms. Trent then called on Mr. Dabbs
5 Sullivan, Junior, with Dabbs Sullivan, Division of
6 George K. Baum Company to present the proposal to the
7 board."

8 I'm going to skip again to page 4 where
9 that -- that same paragraph that begins on page 3, it
10 ends on page 4. And it reads as follows, "after
11 allowing time for questions and discussion, Chairman
12 Stout recommended that the board allow the housing
13 subcommittee to have final approval of the
14 composition and breakdown of underwriters in the
15 proposal. Mrs. Betty Walker moved the recommendation
16 be accepted, and Tommy Edwards seconded the motion
17 with the full board voting aye."

18 Do you remember a meeting of the AHDA board
19 where Dabbs Sullivan made a proposal to the board?

20 A I think this was when we were getting out
21 of the high interest rates. I believe that's what it
22 was. I don't remember.

1 Q And do you think that the reference that I
2 read to you about what Mr. Hammerschmidt mentioned
3 the problems we have had in the single family bond
4 issue, do you think that refers to the high interest
5 rate situation that the agency was in with the Hutton
6 Company that you testified to earlier?

7 A Yes, I think it was. I don't recall
8 specifically, but I think that's what it was.

9 Q Do you recall that the board approved your
10 recommendation that a subcommittee called the housing
11 subcommittee have final approval of the composition
12 and breakdown of underwriters in the proposal?

13 A I don't recall.

14 Q Okay. Now, Mr. Stout, I would like you to
15 take a look at the -- another -- a one-page set of
16 minutes dated February 17th, 1983 regarding the
17 Arkansas -- it says at the top, minutes, Arkansas
18 Housing Development Agency, subcommittee meeting,
19 February 17th, 1983.

20 Do you have that in front of you?

21 A Yes, sir.

22 Q Is that your signature on the bottom of

60

1 that page?

2 A Yes, sir.

3 Q Do you see in the first paragraph on that
4 page where it reads, "the subcommittee consisted of
5 Chairman Charles Stout, Vice Chairman, Mort Hardwicke
6 and Fred Dacus? Do you see that?

7 A Yes.

8 Q Was that accurate, did the -- did the AHDA
9 board form a subcommittee that consisted of
10 yourself, Mr. Hardwicke and Mr. Dacus?

11 A I don't recall.

12 Q Who was Fred Dacus?

13 A He was a board member from Jonesboro,
14 Arkansas.

15 Q Who appointed Mr. Dacus to the AHDA board?

16 A I think Frank White did.

17 Q Do you see the second paragraph on that
18 page where it reads, "Chairman Stout called the
19 meeting to order and stated that the purpose of the
20 meeting was to discuss a proposed solution to the
21 problems with the current single family bond
22 program. After discussion, it was determined that

1 the composition and breakdown of underwriters in this
2 proposal be as directed below."

3 And it reads, Dabbs Sullivan, Division G.K.
4 Baum Company, and Blyth Eastman, Paine Webber, 60
5 percent. T.J. Raney and Sons, Stephens, Inc.
6 Collins, Locke & Lasater, Inc. 40 percent. And then
7 in parentheses, it says 13 and a third percent each.

8 Do you see that?

9 A Yes, sir.

10 Q Did a subcommittee consisting of you,
11 Mr. Hardwicke and Mr. Dacus determine that the Dabbs
12 Sullivan division that the Blyth Eastman, Paine
13 Webber Company and that the T.J. Raney & Sons firm,
14 the Stephens, Inc. firm and the Collins, Locke &
15 Lasater firm would participate in this single family
16 bond program as is stated in this minute?

17 A That's what the minutes say. I don't
18 recall anything about the meeting.

19 Q Do you have any reason to think that this
20 board minute is inaccurate?

21 A I have no reason to think otherwise.

22 Q Is it your general impression that the

1 minutes of meetings of the AHDA board and of
2 subcommittees of the board accurately reflect what
3 went on at those meetings?

4 A Yes, sir, we approved them at the next
5 meeting.

6 Q Now, Mr. Stout, as I read this minute, it
7 seems to indicate that a subcommittee consisting of
8 you, Mr. Hardwicke and Mr. Dacus decided on behalf of
9 the entire board that the firm's listed including the
10 Collins, Locke & Lasater firm would handle the single
11 family bond program for the agency? Do you think I'm
12 right in that?

13 A I have no idea.

14 Q Well, the minutes of the full board meeting
15 on February 17th, which I understand you have not
16 been provided a copy of. But as I stated, they read
17 in part, "after allowing time for questions and
18 discussion, Chairman Stout recommended that the board
19 allow the housing subcommittee to have final approval
20 of the composition and breakdown of underwriter in
21 the proposal. Mrs. Betty Walker moved that the
22 recommendation be accepted. And Tommy Edwards

1 seconded the motion with the full board voting aye."

2 And there's a subcommittee meeting minute
3 which you do have of that same date, which says that
4 a subcommittee consisting of you, Mr. Hardwicke and
5 Mr. Dacus met and determined that the composition and
6 breakdown of underwriters in this proposal be as
7 directed below, with the five firms listed below, the
8 Dabbs Sullivan, Division of G.K. Baum, Blyth Eastman,
9 Paine Webber, T.J. Raney & Sons, Stephens, Inc. and
10 Collins, Lock & Lasater.

11 A I think after the board meeting, the three
12 of us went over to Dabbs Sullivan's office, and he
13 explained a way to get out of these high bond
14 issues. Now, I think that's right. I don't
15 remember.

16 Q So it seems like this couldn't be the board
17 meeting that you recall where Mr. Nash called you on
18 the phone before the board met, because here --

19 MR. O'CALLAGHAN: Are you talking about the
20 subcommittee committee meeting on the same day as the
21 other one?

22 MR. FEUER: That's right.

1 BY MR. FEUER:

2 Q That here we have a subcommittee meeting
3 where the board voted to allow you and Mr. Hardwicke
4 and Mr. Dacus to make this decision and the three of
5 you gentlemen made that decision for the full board
6 later on that day; is that right?

7 A I have no idea.

8 Q Well, your recollection is that Mr. Nash
9 called you on the phone before an AHDA board meeting;
10 is that right?

11 A Yes, and I don't know what the date was.

12 Q And that you -- that you asked
13 Mr. Hardwicke to get on the phone and listen to
14 Mr. Nash; is that right?

15 A Yes, sir.

16 Q And that after you did that, and the two of
17 you got off the phone with Mr. Nash, that
18 Mr. Hardwicke then spoke with the other members of
19 the board before the board decided to include
20 Collins, Locke & Lasater as an underwriter; is that
21 right?

22 A That's what I recall.

1 Q And the minutes dated February 17th, 1983
2 that you have in front of you indicate that it was a
3 subcommittee of the board consisting just of you,
4 Mr. Hardwicke and Mr. Dacus that made this decision;
5 is that right?

6 MR. O'CALLAGHAN: Just for clarity on the
7 record. There are two meetings that occurred the
8 same day, a full meeting and a subcommittee meeting.
9 So let's be consistent.

10 BY MR. FEUER:

11 Q Mr. O'Callaghan is correct, there were two
12 meetings on February 17th. And you're at a slight
13 disadvantage, Mr. Stout, because you don't have the
14 first set of board meetings in front of you.

15 MR. O'CALLAGHAN: You just described it to
16 him.

17 BY MR. FEUER:

18 Q But as I described to you, the board voted
19 to include Collins, Locke & Lasater as an underwriter
20 on your recommendation to allow a subcommittee to
21 have final approval of the composition and breakdown
22 of underwriters in the proposal.

1 And my question is, based on what these
2 minutes state, does it seem like this was the -- this
3 was the occasion when Mr. Nash called you on the
4 phone, or does it seem like that was more likely to
5 have been on another occasion?

6 A I have no idea.

7 Q You have the minutes of the April 19th,
8 1983 special executive board meeting; is that right?
9 Can you find those?

10 A April what?

11 Q April 19th, sir.

12 A Yes, I have them here.

13 Q I'm going to ask you to look first at
14 page 3, the last full paragraph on page 3 reads,
15 "upon Mr. Hardwicke's request for further business,
16 Mr. Wright made a motion that Collins, Locke &
17 Lasater be added to the underwriting team for the
18 agency's proposed 1983 multifamily issue in order to
19 spread it around and include more local Arkansas
20 underwriters on this issue. Mr. Edwards seconded the
21 motion and the board approved same."

22 And the first page of those minutes state

1 the board members present were, Mr. Mort Hardwicke,
2 Mr. Tommy Edwards, Mr. George Wright and Mr. Mahlon
3 Martin.

4 So the board minutes do not indicate that
5 you were present at that meeting. Did this meeting
6 take place while you were on the vacation to Europe
7 that you mentioned earlier?

8 A I think I was. I don't recall. I know I
9 was gone for a period of time in April, and I don't
10 recall.

11 Q Do you think that the AHDA board minutes
12 generally were accurate in stating that you were
13 present when you were present and not stating that
14 you were present when you were not present?

15 A I have no idea.

16 Q But you did review those -- you had an
17 opportunity to review those board minutes after they
18 were prepared, didn't you?

19 A Yes, sir.

20 Q And, in fact, when you were chairman, you
21 signed the board minutes, didn't you?

22 A Yes, sir.

1 Q If you turn to page 4 of these April 19th
2 minutes, there's a signature Charles Stout, there's a
3 signature above the line Charles Stout, chairman. Is
4 that your signature?

5 A Yes, sir.

6 Q Would that indicate that you had approved
7 these minutes and looked them over to see if they
8 were accurate?

9 A Well, I signed it. I don't know if I
10 looked them over or not. I don't recall.

11 MR. O'CALLAGHAN: Just so it's clear, it's
12 dated May 19th when it was signed, a month after.

13 BY MR. FEUER:

14 Q Well, you would agree with me, Mr. Stout,
15 wouldn't you, if you weren't present at the April
16 19th meeting that that can't be the board meeting
17 where Bob Nash called you before the meeting; is that
18 right?

19 A I suppose.

20 Q Mr. Stout, I'm going to ask you a couple of
21 questions about a few more AHDA board meeting
22 minutes, and again I apologize, because these have

1 not been presented to you. You don't have these in
2 front of you.

3 And I apologize for that. And let me say
4 there certainly is no effort underway to try to trick
5 you by asking you questions about documents that you
6 don't have in front of you.

7 But as I said earlier, the -- we only found
8 out about this deposition earlier today, so there
9 wasn't much opportunity to send you materials.

10 MR. O'CALLAGHAN: Just so we're clear and
11 everyone understands, minority was given notice of
12 Mr. Stout's fax number at the same time right after I
13 received it from Mr. Stout. Just so there's no
14 misunderstanding.

15 BY MR. FEUER:

16 Q Now, Mr. Stout, I have in front of me three
17 sets of board meetings from -- three sets of board
18 meeting minutes from 1984. I don't have all -- I
19 think there are other meeting minutes from 1984.

20 I happen to have three in front of me. And
21 the board meeting minutes from June 14th, 1984 state
22 in the second paragraph, board members present were

70

1 Chairman Mort Hardwicke, Vice Chairman George Wright,
2 Mr. Charles Stout, Mr. Fred Dacus, Mr. Tommy Edwards,
3 Ms. Betty Walker, Mr. Mahlon Martin, Ms. Margaret
4 Davenport, Bill Mathis and Mr. Troy Burris.

5 Were you present at the board meeting on
6 June 14th, 1984?

7 A I don't recall being there at all.

8 Q Do you have any reason to think that these
9 board -- that the minutes are inaccurate when they
10 say that you were present?

11 A I have no idea.

12 Q I have in front of me the minutes of an
13 executive board meeting of the AHDA from August 16th,
14 1984. And the second paragraph of those minutes
15 states board members present were, Chairman Mort
16 Hardwicke, Mr. George Wright, Mr. Charles Stout,
17 Mr. Tommy Edwards, Ms. Betty Walker, Mr. Mahlon
18 Martin, Mr. Bill Mathis, Ms. Margaret Davenport,
19 Mr. Troy Burris and Mr. James Branyan.

20 Were you present at the AHDA executive
21 board meeting on August 16th, 1984?

22 A I don't recall.

1 Q But earlier in your deposition, you stated
2 that you didn't attend any board meetings in 1984; is
3 that correct?

4 A I don't remember attending any in 1984.

5 Q Do you have any reason to think that these
6 minutes from 1984 are inaccurate when they state that
7 you did attend meetings?

8 A I have no idea.

9 Q I have one more set of minutes from 1984 in
10 front of me. These are the minutes of a special
11 board meeting of the AHDA on December 12th, 1984.
12 And the second paragraph reads board members present
13 were Chairman Mort Hardwicke, Vice Chairman George
14 Wright, Mr. Bill Mathis, Mr. James Branyan, Mr. Troy
15 Burris, Mr. Charles Stout, Mr. Fred Dacus, Mr. Mahlon
16 Martin and Ms. Margaret Davenport.

17 Did you attend the special board on
18 December 12th, 1984?

19 A I don't recall.

20 Q Do you have any reason to think that these
21 minutes are inaccurate when they state that you did
22 attend that meeting?

1 A No, I don't. I don't recall attending any
2 meetings after I went off as chairman of the board.
3 I may have, but I don't remember.

4 Q Is it possible that you may have forgotten
5 things about board meetings in 1983?

6 A I may have forgotten things about many
7 board meetings in 1983 and '84 and '82 and '80,
8 that's been a helluva long time ago.

9 Q Yes, it has, I certainly agree with you on
10 that.

11 A I told you I had a stroke since then. I
12 don't remember a lot of things.

13 Q Mr. Stout, I'm going to ask you a question,
14 and I don't mean any disrespect with this question.
15 I ask it only because this committee has been charged
16 by the full Senate to try and get the facts as best
17 we can. And lots of different people are being asked
18 questions.

19 And we're holding public hearings where
20 people are called to testify, and for some people,
21 their reputations may be involved as well. So it's a
22 very important endeavor that we've embarked on. And

1 I don't mean any disrespect when I ask you this
2 question.

3 My question is this: Has the stroke that
4 you suffered since 1983 made it difficult for you to
5 recall how things that took place a number of years
6 happened?

7 A Yes, I had to teach myself to write all
8 over again. It's been very difficult to remember. I
9 just remember the large happenings. I don't remember
10 the details of everything. When I was reading these
11 minutes today, I didn't remember hardly anything
12 about them.

13 Q Thank you, sir.

14 Mr. Stout, I'm just going to ask you a few
15 more questions.

16 Is it your recollection that when Mr. Nash
17 called you and you got Mr. Hardwicke on the line that
18 all of the other AHDA board members were present in
19 the agency's offices and were about to vote on the
20 selection of underwriters for a bond issue?

21 A That's what I recall.

22 Q And is it your recollection that after you

74

1 and Mr. Hardwicke got off the phone with Mr. Nash
2 that Mr. Hardwicke spoke to all of the other agency
3 board members?

4 A I think that's what happened. That's what
5 I recall.

6 Q And is it your recollection that then the
7 full board had a meeting following shortly after that
8 phone call where the board voted to include the
9 Lasater firm as one of the agencies underwriters?

10 A Yes, sir.

11 Q I'm just going to take a look at my notes
12 for a minute, Mr. Stout, and see if there's anything
13 else I need to ask you right now.

14 A Okay.

15 (Pause.)

16 BY MR. FEUER:

17 Q Mr. Stout, are you familiar with Dabbs
18 Sullivan, do you know who he is?

19 A Yeah, I know him well.

20 Q And who is he?

21 A He's the Sullivan that owns the Sullivan
22 agency. I don't think he owns it any more. He's

1 close to my age.

2 Q And what was your impression of who he was
3 in 1983?

4 A Well, I knew he has been in the bond
5 business a while. I had read about his company or
6 his dad's company. I respected him. He was a very
7 knowledgeable person.

8 Q And your recollection is that on one
9 occasion after he made a proposal to the full board,
10 that you and Mr. Hardwicke and Mr. Dacus went over to
11 his office?

12 A Yes. With Linda and Hammerschmidt and
13 Mitch Pugh. I recall that. And he laid out the
14 plans. I think this bond issue was reissued. I'm
15 not sure. But we were trying to get out of a high
16 interest bond issue.

17 Q And the agency hired Mr. Sullivan's firm to
18 get out of that bond issue, didn't they?

19 A I suppose that's true.

20 Q Was that the first time that Mr. Sullivan's
21 firm was involved in underwriting single
22 family -- single family bonds for the agency?

1 A I have no idea. The reason I remember
2 this, the agency director told us about his plan, and
3 I suggested that Mitch and Linda go over. And Bob
4 said well, if we take Mitch, he'll get back the E.F.
5 Hutton & Company, and I said I'm not going unless
6 Mitch goes. That's why I remember, see?

7 Q Do you recall any discussion at all at the
8 time that the agency hired the Dabbs Sullivan firm to
9 help get out of this -- help the agency get out of
10 this problem that it was a good thing to hire the
11 Dabbs Sullivan Company because they were a local
12 firm?

13 A Yes, they were a reputable firm, a very
14 knowledgeable firm. And he showed us a way we could
15 get out of these high interest rates, and I think we
16 took him up on it. I don't recall.

17 MR. O'CALLAGHAN: I think Mr. Feuer's
18 question was directed to whether or not they were
19 hired because they were a local firm from Arkansas.

20 BY MR. FEUER:

21 Q Well, the question was not whether they
22 were hired because they were a local firm.

1 My question was, do you recall discussion
2 at that time about the fact that they were a local
3 firm?

4 A No, I don't.

5 Q Do you recall any discussion at all in
6 connection with that bond issue where the Dabbs
7 Sullivan Company was hired about using Arkansas
8 firms?

9 A No, I don't.

10 Q Mr. Stout, was it Mr. Nash's habit to call
11 you on the phone and tell you to do this or do that?

12 A No, it wasn't. I think that's the first
13 phone call I ever got from him as I recall. I've
14 called him a few times.

15 Q How would you describe Mr. Nash? Is he a
16 bossy fellow, or is he an easy going fellow?

17 A He's real easy going. I think a lot of
18 Bob. I think he's a swell person.

19 Q Did he make any threats to you in that
20 conversation that you had?

21 A Oh, no, no, no, no.

22 Q He didn't say if you don't include the

1 Lasater firm, I'm going to do this or I'm going to do
2 that or something else is going to happen?

3 A No, no, no.

4 Q Did he mention Governor Clinton's name?

5 A No, he didn't.

6 Q Did he say to you, gosh, I know this is
7 wrong, I feel terrible asking you to do this, but
8 I've got to ask you anyway? Did he express any
9 discomfort at what he was discussing with you?

10 A I don't remember.

11 Q So he didn't say -- he didn't say I'm sorry
12 for what I'm about to ask you, anything like that?

13 A I don't recall him saying that.

14 Q After you and Mr. Hardwicke hung up the
15 phone with Mr. Nash, was it still your decision and
16 that of the other AHDA board members together to
17 decide which underwriters the agency would use?

18 A Besides Lasater, I think it was.

19 Q And what would have happened if -- what
20 would have happened if you didn't include Lasater?

21 A Who knows. I don't think anything would
22 have happened.

1 MR. FEUER: Okay. I have no more questions
2 right now, Mr. Stout. Thank you.

3 EXAMINATION (Continued)

4 BY MR. O'CALLAGHAN:

5 Q Mr. Stout, I've got a few follow-ups. I
6 will try to be as quick as possible.

7 You said this was when Mr. Nash called you
8 to tell you to include Lasater in the underwriting
9 group, you said it was the first time he ever called
10 you that day that you recall?

11 A That's the first time I ever recall him
12 calling me.

13 Q Was it your impression that this was a
14 pretty important message he wanted to deliver to you?

15 A Yes.

16 Q That's why you and the other board members
17 decided to put Lasater & Company in underwriting
18 groups with AHDA bond yields; is that right?

19 A Yes, sir.

20 Q And Mr. Feuer was saying that you weren't
21 threatened or that you weren't forced into
22 putting -- into including Mr. Lasater's firm in

80

1 underwritings, but what was the practical effects of
2 Mr. Nash's request? Did you really have a choice?

3 A I didn't consider it a choice. He made a
4 suggestion, and I usually go by suggestions when it's
5 in the governor's office.

6 Q So when the governor's office says do
7 something, you do it; is that right?

8 A Yes, sir.

9 Q And you said this is the only instance that
10 you recall of the governor's office getting involved
11 in choosing underwriters; is that right?

12 A Yes, sir.

13 Q Okay. You mentioned other underwriters
14 that were included in ADFA's deals or HDA deals, T.J.
15 Raney, Dabbs Sullivan and Stephens, the other local
16 firms, you said they're all reputable firms; is that
17 right?

18 A Yes, sir.

19 Q Were you under the impression that
20 Mr. Lasater's firm wasn't reputable?

21 A I wasn't familiar with it all.

22 Q So you didn't even know about them when you

1 included them in the deal; right?

2 A No.

3 Q I'm sorry, that was no?

4 A Sir?

5 Q That was no?

6 A No.

7 Q Okay. Mr. Feuer was asking you about your
8 memory and the event of your stroke. You said you
9 forgotten some things because of that; is that right?

10 A Yes, sir.

11 Q But then you said you remember the big
12 events; is that right?

13 A Yes, sir, that's true.

14 Q Now, did you consider Mr. Nash's phone call
15 to be a big event?

16 A Yes, sir, I did.

17 Q So this was the type of big event that you
18 recalled and it sticks in your mind even after the
19 stroke?

20 A Yes, sir.

21 Q Okay. Mr. Feuer was asking you specifics
22 about the phone call and whether the board went in

82

1 and voted right after the phone call and what the
2 circumstances were.

3 But is it possible that you got the phone
4 call, and then Mr. Hardwicke called in the other
5 board members and told them about Mr. Nash's call and
6 they all agreed to include Lasater & Company in
7 deals, but then a full board member vote didn't
8 happen?

9 A That could have happened. I don't really
10 recall.

11 Q You just remember that he spoke with all
12 the board members; right?

13 A Yes, sir.

14 Q That's a clear memory; is that right?

15 A Yes, sir.

16 Q And your recollection is that all the other
17 board members agreed to include Lasater & Company in
18 AHDA bond deals for 15 percent for the -- for the
19 future as well; is that right?

20 A Yes, sir.

21 Q As well as for the issue that you were
22 considering at the time?

1 A Yes, sir.

2 Q And Mr. Feuer also referenced some board
3 meetings that listed you in attendance in 1984. And
4 you had initially stated that you didn't think you
5 were at any of those meetings. Is it possible that
6 you did go to a couple of those meetings?

7 A I don't recall attending any meetings in
8 1984. It's possible I did, but I don't recall.

9 Q Were you not as involved in the agency in
10 1984?

11 A No, I wasn't involved very much.

12 Q You weren't chairman any more; is that
13 right?

14 A That's true.

15 Q So maybe your interest wasn't as intense as
16 it was when you were chairman?

17 A That's true.

18 Q Okay. Okay. Mr. Feuer asked you earlier
19 whether the governor had got to vote on which
20 underwriters to choose and you said no. But you said
21 he did during the case with Lasater; is that right?

22 A Say again.

1 Q Let me rephrase the question. Mr. Feuer
2 asked you earlier whether the governor got to vote on
3 underwriters and you said no; is that right?

4 A Yes.

5 Q But in effect, did he have the -- did he
6 make the selection of underwriters with regard to
7 Lasater?

8 A Bob Nash did.

9 Q Okay. So the governor's office had
10 effectively picked one of the underwriters that was
11 included in AHDA bond deals; is that right?

12 A Yes, sir.

13 Q Okay. One other issue Mr. Feuer asked you
14 whether there was a policy in place to include more
15 underwriters under Mr. Clinton's Administration. And
16 you said you weren't aware of one; is that right?

17 A I'm not.

18 Q And do you think you would be one of the
19 first people that would have been told about that as
20 chairman of the HDA?

21 A I would think so.

22 Q And Mr. Nash would probably be the one to

1 tell you that; is that right?

2 A Yes, sir.

3 Q Did you consider Mr. Nash's directive to
4 include Lasater & Company in HDA bond offerings to
5 be -- would you characterize that as an outrageous
6 request?

7 A I would term it unusual.

8 Q Okay. And just so we're clear. You stated
9 that when Mr. Nash called you and afterward -- after
10 that, the board included Lasater as one of the bond
11 underwriters in one of its issuances. Did you state
12 earlier that was the first issue that you recall that
13 Lasater & Company participated in HDA bond offering?

14 A That's the first one I recall.

15 MR. O'CALLAGHAN: Okay. I have no further
16 questions at this time, Mr. Stout.

17 EXAMINATION (Continued)

18 BY MR. FEUER:

19 Q Mr. Stout, this is Mitchell Feuer again.
20 Just a few more questions.

21 MR. O'CALLAGHAN: Mr. Stout, for the record
22 it seems you've raised enough interest for us to be

1 willing to go over an hour, so we appreciate your
2 patience.

3 BY MR. FEUER:

4 Q When Mr. Nash called you, did he ask you to
5 do something?

6 A I don't remember whether he asked or
7 suggested. It's been 13 years ago. I've had a
8 stroke. I don't recall his exact words. I don't
9 know if he was talking singular or plural.

10 Q Do you think it was one or the other,
11 though, he either asked you or suggested to you?

12 A Yes, sir.

13 Q After the Lasater firm was included in the
14 agency's bond underwritings, did they participate in
15 those bond underwritings just the same as the other
16 underwriters?

17 A Yes, they sent a representative to all the
18 rating meetings in New York, and they attended all
19 the closings just like everybody else.

20 Q And like all the other underwriters, did
21 they have to find purchasers for the bonds they
22 underwrote or else get stuck owning the bonds?

1 A I have no idea.

2 Q Did they have any special deal that you're
3 aware of?

4 A No, I don't.

5 Q Did you ever hear at all that they were
6 receiving special treatment as an underwriter or
7 getting paid for work that they didn't do or getting
8 payment that they didn't deserve?

9 A No, sir.

10 MR. FEUER: I have no more questions.

11 THE WITNESS: Well, if I can help you all,
12 call me tomorrow; if not, call me when you need me.

13 MR. O'CALLAGHAN: Okay. I think chances
14 are very strong, Mr. Stout, that you'll be called
15 tomorrow. And I believe -- will you be home this
16 evening?

17 THE WITNESS: Yes.

18 MR. O'CALLAGHAN: Is it all right if I call
19 you there tonight?

20 THE WITNESS: Sure.

21 MR. O'CALLAGHAN: Okay. Well, okay, I have
22 no further questions at this time. So off the

1 record.

2 (Whereupon, at 8:05 p.m., the deposition
3 was concluded.)
4
5


6 -----
7 CHARLES STOUT
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

89

I, CINDY L. SEBO, the officer

before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires FEBRUARY 14, 2000

**DEPOSITION OF
MARGARET ROZZELL ELDRIDGE
IN RE: S. RES. 120**

WEDNESDAY, MAY 1, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of MARGARET ROZZELL ELDRIDGE, called for examination pursuant to notice of deposition, at 9:40 a.m. in Room 640-A of the Hart Senate Office Building, before SHEILA M. LYONS, a Notary Public within and for the District of Columbia, when were present:

APPEARANCES

DOUGLAS R. NAPPI, Esq.

Majority Counsel

JAMES S. PORTNOY, Esq.

Minority Associate Special Counsel

JOSEPH POTTER, Esq.

Minority Counsel

U.S. Senate

Committee on Banking, Housing, and Urban Affairs

534 Dirksen Building

Washington, DC 20510

On behalf of the Committee.

JOHN THURMAN, Esq.

Thurman & Sims, PLLC

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Little Rock, Arkansas 72201

On behalf of the Deponent.

CONTENTS

WITNESS	EXAMINATION
Margaret Rozzell Eldridge	
by Mr. Nappi	7
by Mr. Portnoy	73
by Mr. Nappi	76
by Mr. Portnoy	77
by Mr. Nappi	80
by Mr. Portnoy	81
by Mr. Nappi	86

P R O C E E D I N G S

1
2 MR. NAPPI: This deposition is being
3 conducted pursuant to Senate Resolution 120. This
4 Resolution establishes a Special Committee
5 administered by the Banking Committee to conduct an
6 investigation involving Whitewater Development
7 Corporation and other related matters. Section 1(b)
8 of Resolution 120 authorizes investigation and public
9 hearings into, among other things, the operations of
10 Whitewater Development Corporation, the activities
11 and investments of Whitewater Development
12 Corporation, and as related to Whitewater Development
13 Corporation, of its officers, directors and
14 shareholders, and the bond underwriting contracts
15 between ADFA and Lasater & Company.

16 This deposition is being conducted in
17 advance of public hearings to be held in the near
18 future. It is likely you may be called to testify at
19 these hearings. We will ask a series of questions.
20 You will be testifying under oath, Mrs. Eldridge. If
21 you don't understand a question, let me know and I
22 will rephrase. If you need a break, let me know.

1 The stenographer will prepare a record of
2 questions and answers. The deposition will be
3 treated as "Committee Confidential" until the
4 commencement of the hearings. Prior to the hearings,
5 you will receive a letter from the Committee telling
6 you that you may come to the Senate to review the
7 transcript of your deposition and make note of any
8 corrections on the transcription on an errata sheet.

9 If you are called to testify at a public
10 hearing, you will be permitted to have a copy of your
11 deposition in advance of your testimony. You may be
12 represented by counsel. Objections to the form of
13 the question will be noted for the record. Counsel
14 may object on grounds of privilege or relevance. The
15 Committee Chairman may rule on objections where the
16 witness refuses to answer a question.

17 Let the record indicate that Glenn Ivey has
18 entered the room. Glenn is also a Minority counsel
19 for the Senate Whitewater Committee.

20 Before we get going with the questioning,
21 why don't we lay out for the record the agreement
22 that we have reached between Majority and Minority

1 staff and the witness.

2 The witness's husband is in the room. The
3 Minority and Majority staff have agreed to allow him
4 to remain in the room and he has agreed or he will
5 agree on the record to adhere to the same
6 confidentiality requirements that the witness and her
7 attorney are bound by pursuant to the confidentiality
8 agreement that Mrs. Eldridge signed last week.

9 Is that your understanding, Jim?

10 MR. PORTNOY: Yes, that is, Doug, thank
11 you.

12 MR. NAPPI: Does that work for you,
13 Mr. Eldridge?

14 MR. ELDRIDGE: Yes.

15 MR. NAPPI: You agree to be bound by the
16 confidentiality agreement?

17 MR. ELDRIDGE: Yes.

18 MR. NAPPI: Okay. All right. Now that we
19 are done with the preliminaries, let's get to the
20 heart of the matter here, and start off with some
21 background questions.

22 Whereupon,

1 MARGARET ROZZELL ELDRIDGE

2 was called as a witness and, having first been duly
3 sworn, was examined and testified as follows:

4 EXAMINATION

5 BY MR. NAPPI:

6 Q Could you please state your name for the
7 record.

8 A My name is Margaret Eldridge.
9
10
11
12

13 Q And you are currently employed by what
14 company, or what is your occupation?

15 A I'm not employed.

16 Q Okay. Did you speak to anyone other than
17 counsel prior to your deposition today?

18 A No, sir.

19 Q So you have not discussed what your
20 testimony will be with anyone other than counsel?

21 A No, sir.
22

1
2
3 Q Thank you very much. Mrs. Eldridge, were
4 you ever employed at Twin City Bank?

5 A Yes, sir.

6 Q What were the dates of your employment at
7 Twin City Bank, approximately?

8 A I was there from August of 1972 to October
9 of '95.

10 Q Okay. During the time you were employed at
11 Twin City --

12 MR. PORTNOY: I would like to apologize for
13 the interruption. Mrs. Eldridge, this is Jim
14 Portnoy. Joe Potter of the Minority Staff has just
15 joined us and will be sitting in on the deposition,
16 and we wanted you to be aware of that, since you are
17 on the telephone and can't possibly see what is going
18 on. Also, Mr. Ivey has departed, so there are still
19 only two of us on this side.

20 BY MR. NAPPI:

21 Q So you joined the bank in August of 1972?

22 A Yes, sir.

1 Q What position did you hold at that time?

2 A I was a management trainee.

3 Q How long were you a trainee?

4 A About a year.

5 Q And then did you become an officer of the
6 bank?

7 A Not right at that time, I don't believe.

8 Q Okay. Why don't you quickly run us through
9 the chronology of jobs you held at Twin City Bank and
10 the dates of those jobs.

11 A Sir, I wouldn't be able to be real accurate
12 on the dates. I can be close.

13 Q Okay. Approximations would be fine.

14 A I was a trainee for -- from '72 to '73, and
15 then I was our credit department manager. And then
16 somewhere in there, I was promoted to what was called
17 loan administration officer, and then I think it was
18 1978, I was promoted to vice president.

19 I was in charge of the corporate
20 administration division, and held that capacity
21 until, I think it was around October of 1988 and I
22 was named executive vice president. Now, somewhere

10

1 in there, I was promoted to senior vice president.

2 And then in 1988, I was named executive vice
3 president.

4 Q What were your duties as senior vice
5 president?

6 A As senior vice president?

7 Q Yes.

8 A I was responsible for the corporate
9 administration area of the bank.

10 Q Can you explain what that is?

11 A Well --

12 Q Is it an operations officer?

13 A To put it in terms that maybe would be
14 understandable from your perspective, I was secretary
15 to the board. I worked with the chairman on
16 administrative issues. I had regulatory compliance,
17 corporate planning for a period of time. I had the
18 human resources function. Part of that time I had
19 the credit administration area for Twin City Bank.

20 I had oversight of Twin City Bank
21 litigation, and at some period of time, I had
22 responsibility for the investment portfolio of the

1 bank.

2 Q Okay. You say you were in charge of credit
3 administration?

4 A Yes, sir, for Twin City Bank, for a period
5 of time.

6 Q Okay. What would that entail, what were
7 your duties and responsibilities?

8 A I had -- now, this is while I was senior
9 vice president, is that the question?

10 Q Yes.

11 A Let's see. The credit administration area
12 we had -- the reason I'm hesitating is because we
13 reorganized so many times, I'm trying to remember
14 which piece I had at that time. The responsibility
15 for what we called our credit department, which
16 maintained Twin City Bank's loan records, loan files,
17 computer records of customers accounts, did credit
18 investigation on customers.

19 Q So they oversaw the bank's due diligence
20 and management of loans?

21 A No, sir.

22 Q No, they did not?

12

1 A No, sir. They oversaw the records.

2 Q Okay.

3 A Due diligence on loans was performed by
4 loan officers, which reported to another area of the
5 bank.

6 Q So you oversaw the recordkeeping function
7 with respect to loan administration?

8 A Yes, sir.

9 Q Okay. What about your regulatory
10 compliance duties, did that involve contact with
11 federal and state regulatory agencies?

12 A Yes, sir. I had the overall responsibility
13 for ensuring that the bank was in compliance with all
14 legal and regulatory matters, from the sense of, I
15 made sure we had systems in place to communicate any
16 changes in regulations to the various division heads,
17 who then had responsibility for implementation. I
18 had -- oh, as a performance standard there wouldn't
19 be any -- there weren't surprises in our exam, that
20 we were in compliance.

21 We were very diligent to try to make sure
22 we followed all banking regulations. And my function

1 was basically a distribution of information function,
2 and the department heads had responsibility for
3 carrying out the applicable laws.

4 Q Okay. Did you have fairly frequent contact
5 with the Arkansas State Banking Department?

6 A No, sir, I did not. The only contact I had
7 with them would be when they came to the bank for an
8 exam, and we would help them get organized and set
9 up, and make sure that they had all the information
10 that they needed.

11 Q You would liaison with the examination
12 staff?

13 A At some point in time while I was senior
14 vice president, I didn't do it the whole time, and I
15 cannot remember without some kind of reference. In
16 fact, I'm not sure I have it documented exactly which
17 period of time, because my job changed. I was senior
18 vice president for several years, and my job changed,
19 as we reorganized, two or three times during that
20 period.

21 Q I understand.

22 A But at some point in time while I was

14

1 senior vice president, that is a good description of
2 what I did.

3 Q Okay. But do you feel like you have given
4 a fairly complete description of your official duties
5 while you were senior vice president?

6 A Yes, sir.

7 Q Okay. At some point you became executive
8 vice president?

9 A Yes, sir.

10 Q And you held that position until you left
11 the bank?

12 A Yes, sir.

13 Q Okay. What were your duties as executive
14 vice president?

15 A I was responsible for our -- what we called
16 our consumer banking division, and that entailed --
17 that also was reorganized a couple of times while I
18 held it. So at some point in time, it entailed all
19 of the bank's marketing and operational activities,
20 as well as the bank branches and all of the consumer
21 products, those products that were not directed
22 toward commercial customers or trust customers.

1 Q Did you have any other responsibilities?

2 A I was, let's see, I was secretary to the
3 board of directors, still, and I was chairman of the
4 board -- somewhere in, I think it was like '92, I
5 became chairman of the board of our bank in Waltham.
6 I believe it was '92. I may be off on the date, but
7 it was sometimes in the '90s.

8 MR. PORTNOY: Mrs. Eldridge, this is Jim
9 Portnoy. You indicated that you had some
10 responsibility for bank branches?

11 THE WITNESS: Yes, sir.

12 MR. PORTNOY: Could you elaborate on that
13 was? Was that a marketing responsibility?

14 THE WITNESS: Yes, sir, my responsibility
15 was to select sites, construct the branches, staff
16 the branches, provide the consumer products for the
17 branches. I also oversaw lending people who were in
18 the branches, and was basically responsible for the
19 day-to-day operation of the branch system.

20 BY MR. NAPPI:

21 Q When were you promoted to executive vice
22 president? You said it was in 1988. Do you recall

1 the date?

2 A I believe it was in October.

3 Q And did you consider this to be a
4 significant promotion? Did you have significant --
5 did your job responsibilities and your status within
6 the bank improve?

7 A Well, I'm not sure managing 300 people is
8 an improvement in your job responsibility.

9 Q But it was a more demanding job?

10 A Yes.

11 Q Did it come with a salary increase?

12 A My promotion?

13 Q Yes, ma'am.

14 A Sure.

15 Q A significant salary increase?

16 A No, sir, it wasn't significant. Depends
17 on, you know, I guess on your point of view.

18 Q I don't want to ask what your salary was,
19 but --

20 A I don't recall it -- I don't recall it
21 blowing my socks off.

22 Q Was it a percentage increase from senior VP

1 to executive VP?

2 A I'm sorry, I didn't hear.

3 Q Do you recall the percentage increase in
4 your salary when you were promoted to executive vice
5 president?

6 A No, sir, I don't recall it. It's a natural
7 progression in our bank.

8 Q And as secretary to the board of directors,
9 did you have pretty regular contact with the
10 directors?

11 A With our local directors? The directors of
12 Twin City Bank?

13 Q The directors of Twin City Bank.

14 A Yes, sir, I saw them every month.

15 Q And you say you were an assistant to the
16 chief executive officer?

17 A No. I was trying to characterize that for
18 you. I wouldn't call it an assistant, but I worked
19 with him on a corporate administration type duty.

20 Q Okay. And that would be Mr. Penick?

21 A No, sir.

22 Q Who would that be?

1 A That would be Terry Renaud.

2 Q Could you spell that name for the record?

3 A R-e-n-a-u-d.

4 Q Okay. While you were at -- well, let's
5 focus on the time you were senior vice president and
6 executive vice president.

7 A Okay.

8 Q And all my questions regarding your
9 employment at Twin City will be directed at that
10 time.

11 A Okay.

12 Q Did your job responsibilities entail
13 lobbying work or legislative affairs work?

14 A It did not entail lobbying work. Because
15 of my regulatory compliance work, I did keep up with
16 legislative matters.

17 Q Yes. But I'm talking, was one of your
18 specific responsibilities reaching out to elected
19 officials or appointed officials?

20 A For the purpose of lobbying?

21 Q Yes.

22 A No, sir.

1 Q Or discussing legislation, pending
2 legislation or regulatory matters?

3 A Well, I may discuss clarification of
4 regulatory issues with regulatory officials, but I
5 never had, as a responsibility, being the bank's
6 lobbyist.

7 Q Okay. You mentioned Mr. -- and I'm sorry
8 if I mispronounce the name -- Terry Renaud?

9 A Renaud.

10 Q He was the CEO?

11 A Yes, sir.

12 Q Do you recall the dates that he was CEO?

13 A He was CEO the entire time I was at the
14 bank, sir.

15 Q Okay. Did you have daily contact with him?

16 A Yes, sir.

17 Q Do you know Ed Penick?

18 A Yes, sir.

19 Q What was his responsibility at the bank, or
20 what was this is title?

21 A He was like me, our jobs changed over that
22 many years. Which period of time do you want?

20

1 Q All right. Let's deal with the years 1984
2 through 1988.

3 A I don't know the exact date, but at some
4 point during that, Mr. Penick was the president of
5 the bank. I don't recall when he was named
6 president, whether it was prior to that or whether he
7 was president during that entire time, but I believe
8 he was president that entire period.

9 Q Okay. Did Mr. Penick report to Mr. Renaud,
10 or did Mr. Renaud report to Mr. Penick?

11 A Mr. Penick reported to Mr. Renaud.

12 Q What about an individual named Bob Birch,
13 do you know him?

14 A Yes, sir.

15 Q What was his title at Twin City Bank?

16 A I believe he was, during that period of
17 time, probably senior vice president and executive
18 vice president. I don't remember when he got his
19 promotion, either.

20 MR. PORTNOY: I'm sorry, I didn't hear.
21 Who were you asking about?

22 MR. NAPPI: Bob Birch.

1 MR. PORTNOY: Thank you.
2 BY MR. NAPPI:
3 Q Do you know an individual named Susan Sisk?
4 A Yes, sir.
5 Q She worked at Twin City Bank?
6 A Yes, sir.
7 Q And what was her responsibility there?
8 A She was a loan officer.
9 Q Okay. And what about Charlotte May?
10 A I believe Charlotte May was the executive
11 director of the Bank Holding Companies Association.
12 Q So she worked for a trade organization?
13 A I believe so, yes, sir.
14 Q Okay. And that was during this time period
15 we are focusing on, the --
16 A I don't recall.
17 Q Well, I won't hold you to it. Did she work
18 at that trade association during that time, to the
19 best of your recollection?
20 A I'm not sure of the time period, sir. I
21 just remember Charlotte worked for that trade
22 association. That is the way that I knew of her.

1 Q All right. Do you know an individual named
2 Dale Renaud?
3 A Yes, sir.
4 Q Is he a relative of Terry Renaud?
5 A Yes, sir.
6 Q Is he a son or cousin?
7 A Brother.
8 Q He is a brother. Okay. Did he work at
9 Twin City?
10 A Yes, sir.
11 Q What title did he hold during this time
12 period?
13 A Let me reflect on my answer just a minute
14 ago. I don't know for sure that Dale worked at Twin
15 City during this time period. I just know that he
16 worked at Twin City for a period of time. And when
17 he worked for Twin City, he was a vice president in
18 charge of our operations division.
19 Q Any of these people I just mentioned, these
20 Twin City -- or people affiliated with Twin City, to
21 the best of your knowledge, did any of them serve on
22 the board of directors of First Ozark Bank?

1 A Yes. Ed Penick was, as I recall, was
2 chairman; and Dale Renaud, as I recall, was president
3 of the bank at one point.

4 Q What about Susan Sisk?

5 A I don't recall anything about Susan.

6 Q Okay. What about Terry Renaud?

7 A I don't recall if he was officially on the
8 board or not. He was chairman of the holding
9 company, so he may have been ex officio to the
10 board. I just don't recall.

11 Q And the holding company was TC Bankshares?

12 A Yes, sir.

13 Q Do you know Hillary Rodham Clinton?

14 A Sir?

15 Q Do you know Hillary Rodham Clinton?

16 A Yes, sir. And I'm having a little bit of
17 difficulty hearing you.

18 Q I'm sorry. Let me see if I can finagle
19 with the volume here.

20 MR. THURMAN: Whatever you did, it improved
21 it a great deal.

22 MR. PORTNOY: It's a technological marvel.

1 We moved closer to the microphone.

2 BY MR. NAPPI:

3 Q Can you hear me now?

4 A Yes, sir.

5 Q Excellent. Do you know Hillary Rodham
6 Clinton?

7 A Yes, sir.

8 Q Do you recall when you first met her?

9 A Sometime in the early '70s.

10 Q Can you describe your relationship with
11 her, was she a friend?

12 A Yes, sir, we were personal friends.

13 Q So was it solely a personal friendship?
14 Did you ever have any business relationships with
15 her?

16 A Did I have any kind of what?

17 Q Business relationship. Did you have
18 business dealings with her?

19 A Oh, business, when we were both young
20 associates at our institutions, we worked together on
21 a litigation matter.

22 Q Okay. Did you have weekly lunches with

1 Mrs. Clinton?
2 A No, sir, I did not have weekly lunches with
3 Mrs. Clinton.
4 Q Did you get together with her frequently?
5 A No, sir.
6 Q Did you know --
7 A I saw Mrs. Clinton maybe three or four
8 times a year.
9 Q Okay. What about Bill Clinton, did you
10 know him?
11 A Yes, sir.
12 Q Was it a personal friendship, or could you
13 describe your relationship with him?
14 A I would consider our relationship a
15 friendship. I also supported his candidacy.
16 Q What about contact with him; the same,
17 three or four times a year?
18 A I didn't -- I don't believe I saw him as
19 frequently as I saw Mrs. Clinton. Mrs. Clinton and
20 my relationship was a friendship.
21 Q Okay. Prior to the time that TC Bankshares
22 acquired First Ozark National Bank, did you ever

1 discuss Mrs. Clinton's investment in Whitewater with
2 her?
3 A No, sir.
4 Q Do you recall when TC Bankshares acquired
5 First Ozark?
6 A No, sir, I do not.
7 Q I'm not asking the specific date. Do you
8 have a recollection of TC Bankshares acquiring First
9 Ozark?
10 A Yes, sir.
11 Q You do. Okay. Do you know an individual
12 named Wes Strange?
13 A Yes, sir.
14 Q Was he an employee of TC Bankshares --
15 excuse me, First Ozark?
16 A Yes, sir.
17 Q What was his job at First Ozark?
18 A What was his job?
19 Q Yes.
20 A Is that what you said?
21 Q Yes, ma'am.
22 A He was president.

1 Q What about Vernon Dewey?

2 A I don't know Vernon Dewey.

3 Q You don't think you have ever met Vernon
4 Dewey?

5 A It's possible I met him, but I don't recall
6 him.

7 Q Okay. What about Ron Proctor?

8 A Yes, sir, I know Ron.

9 Q Do you know him from his employment at
10 First Ozark?

11 A Yes, sir, but I know him because he trained
12 in the lending department at Twin City for a period
13 of time.

14 Q Do you recall, was this after the
15 acquisition of First Ozark?

16 A Yes, sir. It was to teach him our loan
17 policies and practices.

18 Q And he was an employee of First Ozark at
19 that time?

20 A Yes, sir.

21 Q Did you have regular contact with any of
22 the employees at First Ozark National Bank after it

28

1 was acquired by TC Bankshares?

2 A No, sir, not regular contacts.

3 Q Could you describe the types of
4 circumstances in which you would have contact with
5 the employees of First Ozark?

6 A One of my responsibilities, as I mentioned
7 earlier, was human resources, and I was charged with
8 making sure that all of our newly acquired banks
9 adopted all of our personnel policies and were
10 trained on what the benefits were and those kinds of
11 things; so I had contact there. And one of my areas
12 of responsibility was our wire transfer function, so
13 from time to time, there might be a question about
14 interbank transfers. And one of my associates
15 managed the investment portfolios for the
16 affiliates.

17 So from time to time, I would look at the
18 performances and I might discuss a particular
19 investment with the CEO, but it was very, very
20 infrequent.

21 Q Okay. The CEO of First Ozark?

22 A Yes, sir. Am I speaking loud enough?

1 Q Yes, you are. I can hear you.
 2 A Okay.
 3 Q Who was the CEO of First Ozark?
 4 A I believe it was Wes Strange.
 5 Q So he was president and CEO?
 6 A Yes, sir.
 7 Q Did you ever make inquiry to anyone at
 8 First Ozark regarding the Whitewater loan?
 9 A Not that I recall, sir.
 10 Q And you know --
 11 MR. THURMAN: Excuse me just a minute.
 12 Somewhere down the line I think you are flipping
 13 papers and sending a tone across the line that cuts
 14 you out.
 15 MR. PORTNOY: Let's go off the record a
 16 second.
 17 (Discussion off the record.)
 18 MR. THURMAN: Mr. Eldridge has left the
 19 room.
 20 BY MR. NAPPI:
 21 Q Okay. Mrs. Eldridge --
 22 A Yes, sir.

1 Q -- do you recall when you first became
 2 aware that the Clintons had a commercial real estate
 3 loan at First Ozark Bank?
 4 A No, sir, I don't recall.
 5 Q Do you recall becoming aware that they had
 6 the loan that I would like to refer to as the
 7 Whitewater loan?
 8 A Yes, sir, I do recall becoming aware of it.
 9 Q Was that during your time; was that during
 10 this time period between 1984 and 1988?
 11 A My recollection of when I realized that
 12 they had a loan at our bank in Flippin was when I
 13 started reading all about your Whitewater
 14 investigations.
 15 Q Okay. So it would have been subsequent to
 16 Bill Clinton's election as President?
 17 A I don't know --
 18 Q Let me put it this way --
 19 A The truth of the matter is I really don't
 20 know at what point I became aware of that issue.
 21 Q Okay.
 22 A I wouldn't be able to pin it down.

1 Q Did you become aware of it from reading
2 about it in the press?

3 A Sir, I just don't have a recollection.
4 This thing has been going on for so long, I don't
5 have any recollection of what precipitated me to be
6 aware of it.

7 Q Okay. Do you recall having any contact
8 with any employee of First Ozark Bank regarding the
9 loan that the Clintons had outstanding at First
10 Ozark?

11 A No, sir, I do not recall that.

12 Q Do you recall having any contact with
13 Hillary Clinton?

14 A No, sir, I don't recall it.

15 Q Do you recall any contact with Bill Clinton
16 regarding this loan?

17 A No, sir.

18 Q Do you recall any contact with anyone in
19 the Arkansas governor's office regarding this loan?

20 A No, sir.

21 Q Did you ever discuss this loan with Bruce
22 Lindsey?

1 A No, sir.

2 Q Did you ever discuss this loan with Ed
3 Penick?

4 A Not that I recall, sir.

5 Q Did you ever discuss this loan with Terry
6 Renaud?

7 A Not that I recall, sir. Well, no, let me
8 back up --

9 Q Sure.

10 A -- the past two answers, I recall recently
11 discussing -- well, I guess the answer is I didn't
12 discuss the loan specifically, no, not with Ed
13 Penick. And I don't recall discussing the loan
14 specifically with Terry Renaud, other than at some
15 point when I was aware that our bank in Flippin was
16 the bank tied to this Whitewater loan. I do remember
17 saying can you believe this, you know. That kind of
18 conversation, not anything in specific about it.

19 MR. PORTNOY: Mrs. Eldridge, it's Jim
20 Portnoy again. I'm trying to place these
21 conversations in time. Did they occur after Bill
22 Clinton was elected President?

1 THE WITNESS: Yes, sir.

2 MR. PORTNOY: Do you recall if they
3 occurred after the Senate began looking into these
4 matters?

5 THE WITNESS: Yes, sir.

6 MR. PORTNOY: So they are fairly recent
7 conversations?

8 THE WITNESS: Yes.

9 MR. PORTNOY: Thank you.

10 BY MR. NAPPI:

11 Q Okay. You say -- I think you testified or
12 described specific conversations about the loans.
13 When I'm asking you about conversations about loans,
14 I'm not just asking about the nuts and bolts of the
15 loan agreement. I would be asking about anything to
16 do with the banking relationship with the Clintons,
17 if you will.

18 A The only banking relationship with the
19 Clintons that I ever recall discussing with Hillary
20 was the savings account we had for Chelsea.

21 Q And would this be at Twin City Bank?

22 A Yes, sir, it was, which was, I believe it

1 was opened up when she was born. Other than that, I
2 have no recollection of discussing any other banking
3 relationships with Mrs. Clinton.

4 Q Okay. And you don't have any recollection
5 of discussing the Clintons's banking relationship
6 with First Ozark --

7 A No, sir.

8 Q -- with anyone from First Ozark Bank?

9 A I have no recollection whatsoever of that.

10 Q Do you ever any recollection of discussing
11 the Clintons's banking relationship with First Ozark
12 with anyone affiliated with Twin City Bank?

13 A No, sir.

14 MR. THURMAN: You are talking about while
15 she was still employed and while they were --

16 MR. NAPPI: Yes. Again, I'm sorry.

17 MR. THURMAN: Let's make sure, when you ask
18 her if she had any conversations with anybody, let's
19 identify the time, because she may have had
20 conversations recently, and that is what she said.
21 She had no conversations otherwise than recently, and
22 that was after the press reports came out.

1 THE WITNESS: Let me just see if I can be
2 very clear on this. I don't have any recollections
3 about this loan. I just don't have any.

4 BY MR. NAPPI:

5 Q And I'm sorry if I wasn't clear. I was
6 focusing you on the time period between the beginning
7 of 1984 and the end of 1988.

8 A I have no recollections about this loan.

9 Q Do you recall ever discussing with Hillary
10 Clinton financial statements with respect to a loan?

11 A No, sir.

12 Q If you would bear with me for one minute,
13 I'm just going through my pile of records here. The
14 first document I would like to direct your attention
15 to is a copy of a note pad on stationery that says
16 "Hillary Rodham Clinton."

17 A Yes, sir.

18 Q The stamp number is DKRT 700294. Do you
19 have that in front of you, ma'am?

20 A Where is the number located?

21 Q It's sort of hard to see. It's sideways on
22 the right hand.

1 A Okay. And what is it again?

2 Q DKRT 700294.

3 A Yes, sir, we have it.

4 Q Okay. Great. Could you take a minute and
5 just review this note?

6 A Yes, sir, I have reviewed it.

7 Q The first line of handwriting says "notes
8 with M -Port," or "notes of TK with M -Port."

9 A I see that.

10 Q Do you recall ever having a discussion with
11 Hillary Rodham Clinton regarding the facts and
12 figures that are described in this note?

13 A No, sir, I do not.

14 Q You would agree that it looks like a
15 discussion regarding the Whitewater loan?

16 A No.

17 MR. THURMAN: I will object to the form of
18 that question. She can't, I don't know what it looks
19 like to her or to you, but the document speaks for
20 itself.

21 BY MR. NAPPI:

22 Q Fair enough. Having reviewed this note,

1 does it refresh your recollection as to any knowledge
2 you may have had regarding the Clintons's loan at
3 First Ozark?

4 A No, sir, it does not.

5 Q Okay. The next record I would like to
6 direct your attention to is also a copy of notes
7 taken on stationery that says "Hillary Rodham
8 Clinton" at the top, and it's DKSJ 029262.

9 A It's a handwritten note, you say.

10 MR. THURMAN: The ones you sent this
11 morning?

12 MR. NAPPI: Yes, sir.

13 MR. THURMAN: Okay. We don't have any
14 numbers on the ones you sent this morning. It's page
15 2 of the 12-page fax that is supposedly on
16 Mrs. Clinton's note pad.

17 MR. NAPPI: Yes. The first line says,
18 "current notes provide \$1,100."

19 THE WITNESS: Yes, sir.

20 MR. THURMAN: We have that.

21 BY MR. NAPPI:

22 Q Could you take a minute to review this?

1 A Yes, sir.

2 Q Does this reflect any conversation that you
3 recall having with Hillary Rodham Clinton?

4 A Mr. Nappi, I don't recall having any
5 conversation with Hillary Clinton about this matter,
6 period, end of sentence.

7 Q Okay all right.

8 A I wish I did. It would be easier.

9 MR. PORTNOY: Off the record.

10 (Discussion off the record).

11 BY MR. NAPPI:

12 Q Why don't we move on to another document,
13 another record. It's a form of personal financial
14 statement.

15 A Yes, sir.

16 Q And at the top, it says "The Twin City
17 Bank."

18 MR. THURMAN: What number?

19 MR. NAPPI: Unfortunately, this one does
20 not have a number.

21 MR. THURMAN: What date?

22 MR. NAPPI: It is March 24, 1987.

1 THE WITNESS: Yes, sir, we have got it.
2 BY MR. NAPPI:
3 Q It's three pages.
4 A Yes, sir.
5 Q Do you recognize this as being the form
6 used by Twin City Bank at that time, between '84 and
7 '88?
8 A We used a form similar to this. It appears
9 to me that "The Twin City Bank" has been stamped on
10 there. My recollection is that our forms had our
11 name printed. So this is a little confusing to me,
12 but we used a similar form.
13 Q Okay. Right next to the stamp of the Twin
14 City Bank, right to the left --
15 A Yes, sir.
16 Q There is an initial, and under it, it says
17 "3-26." Do you recognize that mark?
18 A No, sir.
19 Q Do you recognize the mark above Twin City
20 Bank?
21 A No, sir.
22 Q Have you ever seen this record before?

1 A No, sir.
2 (Discussion off the record.)
3 BY MR. NAPPI:
4 Q Okay. If I could direct your attention
5 once more to this financial statement, do you
6 recognize this as being a form of financial statement
7 used by First Ozark Bank in the --
8 A Do I recognize it as what, sir?
9 Q The form of financial statement that was
10 used by First Ozark Bank between 1984 and 1988?
11 A No, sir, I wouldn't know that. I didn't
12 have anything to do with their loan records. They
13 did use our credit policies, so that's all I know.
14 But I did not observe their actual documents.
15 Q Okay. And would their credit policies have
16 included retention of current personal financial
17 statements in the credit file for a loan?
18 A At their bank?
19 Q Yes.
20 A Uh-huh.
21 Q That is a yes?
22 A Yes, sir.

1 Q Okay. Would their credit policies have
2 included periodic appraisals of certain material?

3 A I can't comment on that, sir, without
4 having reviewed the policy.

5 Q Well, do you recall Twin City's policy at
6 that time? And again, let's focus on the years
7 between 1984 and 1988.

8 A No, sir.

9 Q You do not recall Twin City's policies?

10 A No, sir.

11 Q Would it be standard banking practice to,
12 at that time period -- again, between 1984 and
13 1988 -- to have obtained or conducted periodic
14 appraisals of real estate that secured loans?

15 A I can't comment about conducting periodic
16 appraisals. Generally we obtained appraisals at the
17 time the loan was made, and further reviews were the
18 responsibility of the individual loan officers.

19 Q Were individual loan officers encouraged to
20 conduct periodic appraisals?

21 A I don't know, sir.

22 Q That would have been the responsibility of

1 the person in charge of a branch or particular bank
2 within the holding company?

3 A The responsibility for implementing loan
4 policy, whatever it was, was the responsibility of
5 the CEO of the bank, if that is what you are asking
6 me.

7 Q Okay. Have you ever heard of Act 539 of
8 1987 of the Arkansas legislature?

9 A I have since I reviewed these documents.

10 Q Do you recall in 1987 the Arkansas
11 legislature passing legislation regarding branching
12 in counties with populations over 200,000?

13 A Yes, sir, I now recall that. Yes, sir.

14 Q Do you have any recollection of these
15 events in 1987?

16 A I just have a vague recollection.

17 Q Do you recall that this legislation --
18 would it confuse you if I referred to it as Act 539?

19 A No, sir, that is fine.

20 Q Okay. Do you recall Act 539 being a
21 legislative priority for Twin City Bank in 1987?

22 A I recall us being interested in it.

1 Q Can you tell me --

2 A I don't know if I can use the word -- I
3 don't know what "legislative priority" means.

4 Q Can you describe what you mean when you say
5 you recall the bank "being interested in it"?

6 A The bank was interested in being able to
7 grow, so any legislation related to branch banking
8 was of interest to our holding company.

9 Q Okay. Do you know if anyone employed at
10 Twin City Bank was involved in the drafting of Act
11 539?

12 A No, sir, I don't.

13 Q Do you recall Mr. Renaud having -- Terry
14 Renaud, excuse me -- having an interest in Act 539?

15 A As chairman of the holding company,
16 Mr. Renaud had an interest in any legislation that
17 allowed for expansion.

18 Q So he supported this bill?

19 A I believe so. I don't recall. I believe
20 so.

21 MR. PORTNOY: Mrs. Eldridge, are you
22 telling us that you recall Mr. Renaud supporting the

1 bill, or are you telling us that it is your
2 speculation that he supported the bill?

3 THE WITNESS: There was a lot of confusion
4 over this at the time. And I think his position
5 changed two or three times, so I can't answer it
6 specifically.

7 MR. PORTNOY: Are you saying then that you
8 don't have a clear recollection of what Mr. Renaud's
9 position on this legislation was?

10 THE WITNESS: That's correct.

11 BY MR. NAPPI:

12 Q Who was responsible at Twin City for
13 legislative affairs?

14 A Ask it another way, please, sir. Are you
15 asking Twin City or TC Bankshares?

16 Q All right. I will ask, who at the holding
17 company was responsible for legislative affairs?

18 A Mr. Penick.

19 Q Was anyone at the bank who -- at Twin City
20 Bank, who was responsible?

21 A Would you define "legislative affairs"?
22 I'm not sure what --

1 Q Okay. Sure, by "legislative affairs," I
2 mean dealing with elected officials and their staff;
3 be it the legislature, the governor's office; dealing
4 with the regulatory agencies, in this case the
5 Arkansas Banking Department, with respect to proposed
6 legislations, amendments to legislation, that would
7 affect the bank, lobbying.

8 A Lobbying, our lobbying was primarily -- if
9 you could define it as that, because we didn't
10 consider ourselves lobbyists -- but Mr. Penick and
11 sometimes Mr. Renaud.

12 Q What about yourself?

13 A I was not engaged in lobbying. My
14 activities related to any kind of legislative matters
15 was strictly keeping up with what was going on, and
16 if there were laws passed, then ensuring that our
17 corporation implemented them effectively. But I
18 wasn't called upon, to the best of my recollection,
19 to do lobbying.

20 BY MR. PORTNOY:

21 Q Mrs. Eldridge, when you say you kept up
22 with what was going on, do you mean that part of your

1 responsibility involved keeping track of changes in
2 the regulatory climate for your bank, and to see that
3 the bank complied with any new requirements?

4 THE WITNESS: Yes, sir. One of my
5 associates, the person who worked for me, was
6 assigned that responsibility.

7 MR. PORTNOY: But you don't mean, do you,
8 that you tried to get the legislature to change the
9 banking laws, for example?

10 THE WITNESS: I don't mean that at all.

11 MR. PORTNOY: And you didn't try to get the
12 Governor's office to change the banking laws in
13 connection with your regulatory responsibilities?

14 THE WITNESS: No, sir. That would
15 generally be handled by Mr. Penick, and sometimes --
16 if we even got involved in that, which was very
17 infrequently.

18 MR. PORTNOY: So your involvement with
19 legislative or regulatory changes typically arose
20 after those changes were in effect?

21 THE WITNESS: Yes, sir.

22 BY MR. NAPPI:

1 Q What Mr. Portnoy is talking about is
2 compliance.

3 A Yes, sir.

4 Q Is it your testimony that-- strike that.

5 Let's move forward. Could I direct your
6 attention to a document, and again, this is a
7 document that doesn't have a serial number on it. So
8 I will try to describe it. It's entitled "file
9 notes, May 27, 1986."

10 A I have got it.

11 Q Great. Have you had an opportunity to read
12 this, Mrs. Eldridge?

13 A Yes, sir.

14 Q Do you recall ever seeing this before?

15 A No, sir, I don't recall seeing the
16 document. I do see that I'm carboned on it.

17 Q This looks like a -- or this describes--
18 strike that.

19 Do you recall Mr. Penick approaching the
20 state banking board on this issue, looking for
21 regulatory relief to allow them -- to allow the
22 opening of branches?

1 A My recollection is that we were trying
2 to -- or our bank was trying to, as you say, get some
3 relief so we could expand. I don't have any
4 recollection of the steps Mr. Penick took.

5 Q Do you recall ever being in any meeting or
6 having any contact with Mr. Penick regarding steps
7 that could be taken to allow Twin City to branch?

8 A As a member of the executive committee, he
9 would keep us apprised, but I don't recall any
10 specifics.

11 Q What would he keep you apprised of?

12 A The current status.

13 Q Of what?

14 A Of whatever efforts we were --

15 Q With respect to legislation?

16 A Pardon?

17 Q With respect to legislation or regulatory
18 initiatives, are we talking about?

19 A Yes, he would keep us apprised of that,
20 yes, sir.

21 Q Do you recall any discussions regarding the
22 legislation to allow branching in counties over

1 200,000 people?

2 A Sir, I don't recall any details of any
3 discussion. I recall that our bank and our holding
4 company was interested in expansion and that there
5 were a lot of proposed banking law changes, and that
6 some of those passed. Now those, that is the extent
7 of the details of my recollection.

8 Q Do you recall Mr. Penick ever asking you to
9 contact Hillary Rodham Clinton regarding any
10 legislation?

11 A No, sir. He did not.

12 Q You don't recall or you are certain he did
13 not?

14 A I'm certain he did not.

15 Q Do you recall Terry Renaud asking you to
16 contact Hillary Rodham Clinton with respect to any
17 legislation?

18 A Mr. Nappi, my relationship with
19 Mrs. Clinton was that of a personal friend. I never
20 talked to Mrs. Clinton about any banking legislation
21 at any time.

22 Q All right. I would like to direct your

50

1 attention, if I may, to two documents
2 simultaneously. Okay. One is Bates stamped -- well,
3 they both contain the JRTS preface.

4 A They both contain what?

5 MR. THURMAN: Doug, unfortunately when you
6 sent that, my fax machine did not pick them up with
7 the bottom part of it on there, and some of those we
8 have and some we do not. So you need to describe the
9 document.

10 MR. NAPPI: Okay. Why don't I describe
11 them. One is a handwritten note that says, the first
12 line says "May 9, RTF, Hartfield."

13 MR. THURMAN: That was in the original
14 stuff you faxed?

15 MR. NAPPI: Yes, this are both in the
16 original package.

17 MR. THURMAN: Okay.

18 MR. NAPPI: The next one, the first line
19 says "BC/Bo Carville, W. Hartfield." They are both
20 handwritten notes.

21 MR. THURMAN: Those, we may have the
22 numbers on them? JRTG 00163.

1 MR. NAPPI: No, it's 00183. Yes, I think
2 you have got it.

3 THE WITNESS: What is the other one?

4 BY MR. NAPPI:

5 Q 0002.

6 A Okay. We found it. We think. It says
7 January 25.

8 Q Yes, and the other one says May 9.

9 A Okay. We have got it.

10 Q Both of these were produced to us from
11 Governor Clinton's records, and they relate to a
12 special session that was held for what was referred
13 to as an omnibus banking bill.

14 A Yes, sir.

15 Q Do you recall that legislation?

16 A I recall that there was an omnibus banking
17 bill. I don't recall the details of it.

18 Q Do you recall whether Twin City Bank or the
19 holding company supported that legislation?

20 A I recall that there was some controversy,
21 so it was supported in various forms.

22 Q Okay. But on both, on the May 9 notes,

52

1 under the designation "banks against," is listed
2 "TCB." Is that a general way of describing or
3 abbreviating Twin City Bank?

4 A Could be, yes, sir.

5 Q Okay. Do you agree that it could be Twin
6 City Bank that is being referred to there?

7 MR. THURMAN: I don't know whether we ought
8 to object to that question or not.

9 BY MR. NAPPI:

10 Q All right. I will withdraw that question.

11 In general, having reviewed these records,
12 does it refresh your recollection that Twin City Bank
13 opposed this legislation?

14 A My recollection was that there was some
15 controversy about it, and I just don't remember the
16 specific details, nor do I remember what the final
17 position was.

18 Q Do you recall anything about why this was
19 controversial?

20 A Yes, sir. I believe that there was a
21 provision in it somewhere that tried to put a
22 300-foot limitation on the distance between a branch

1 and another bank, and that would have effectively
2 shut down one of our branches, I believe. So that
3 was controversial. I don't remember if in the final
4 bill that was ever dealt with. I guess it was dealt
5 with.

6 So that is why I'm a little confused about
7 what point we supported it, and what point we were
8 opposed to pieces of it.

9 Q Okay. Do you recall ever being asked to
10 arrange a meeting with Betsy Wright regarding this
11 legislation?

12 A I saw the notes in the information that you
13 sent me. I do recall arranging a lunch with Terry
14 Renaud and Betsy Wright. I did not, and still do
15 not, recall the contents of that lunch.

16 Q By content, you mean the conversation?

17 A Right.

18 Q Do you recall any other meetings with Betsy
19 Wright regarding -- or any other meetings with Betsy
20 Wright and any officer or director of Twin City?

21 A Any meetings?

22 Q Yes. Pertaining to legislation?

1 A Oh. No.

2 Q Do you recall any meetings relating to
3 banking regulation with anyone from Governor
4 Clinton's office?

5 A No, sir, I don't have any recollection.

6 Q Do you know Sam Bratton?

7 A I know Sam, yes, sir.

8 Q Did you ever meet with him regarding
9 banking legislation?

10 A Not that I recall.

11 Q Were you ever asked to contact him
12 regarding banking legislation?

13 A No, sir, not that I recall.

14 Q Do you recall ever having any conversations
15 with Betsy Wright in which the Clinton's loan from
16 First Ozark Bank came up?

17 A No, sir, I never had any such conversation.

18 Q Do you recall any such conversations with
19 Sam Bratton?

20 A No, sir.

21 Q Any such conversations with anyone from the
22 Arkansas State Banking Department?

1 A No, sir.

2 Q If I could direct your attention to the
3 notes or the memo regarding your lunch with
4 Ms. Wright and Mr. Renaud.

5 A Okay. Got it.

6 Q Okay. Let's focus on the first
7 paragraph --

8 A Yes, sir.

9 Q -- where it talks about Margaret being
10 stand-offish. Well, I will just read it. "Margaret
11 has been very stand-offishy to me since her own
12 attempt to be appointed bank commissioner." Did you
13 tie to become bank commissioner?

14 A Yes, sir.

15 Q When did you try to become bank
16 commissioner?

17 A When?

18 Q Yes.

19 A I don't remember the exact year.

20 Q Who did you want to replace as bank
21 commissioner, or who was leaving the post?

22 A Marlin Jackson was leaving.

1 Q So that is when Bill Ford took over; is
2 that correct?

3 A Yes, sir.

4 Q What prompted you to seek to become bank
5 commissioner?

6 A I had a number of people suggest that it
7 would be a good thing for the state to have a woman
8 banking commissioner, and that I had the credentials,
9 and my name was put forth to the governor's office by
10 several people.

11 Q Do you recall who put your name forward,
12 the several people who put your name forward?

13 A I really don't have a recollection of who,
14 no, sir. I just know that my name was put forward.
15 I heard that, and I remember letting Betsy know that
16 I was interested in the job.

17 Q Did Ed Penick put your name forward?

18 A I don't recall. I'm not sure I ever knew
19 who put it forward. I just have a knowledge that my
20 name had been put forward.

21 Q Do you recall why you did not receive the
22 appointment as bank commissioner?

1 A What I was told -- I'm sure you have
2 surmised from all these documents that First
3 Commercial and Twin City were major competitors, and
4 a contingent from First Commercial opposed it,
5 opposed the nomination and rallied enough support for
6 the opposition that it would have been politically
7 difficult for the Governor to go ahead and appoint
8 me. That was my understanding. The truth of the
9 matter is they picked somebody else.

10 Q Was that Mr. Bowen at First Commercial who
11 rallied opposition against your appointment?

12 A I'm not positive. I probably was reporting
13 to you speculation that had been given to me, so I
14 don't know factually who, you know, who was the exact
15 opposition.

16 Q When you did not receive the appointment as
17 banking commissioner, did it have a negative impact
18 on the relationship between Twin City Bank and the
19 Arkansas governor's office?

20 MR. PORTNOY: I'm going to object now.
21 Well, actually I will withdraw the objection, because
22 this ties into the Twin City Bank.

1 But I would object to any further questions
2 about the specifics of the nomination process on the
3 grounds they are outside the scope, but I would
4 withdraw my objection to that question.

5 BY MR. NAPPI:

6 Q Do you recall the question, ma'am?

7 A Please repeat it.

8 Q Sure. Do you recall that, when you were
9 denied or when you failed to receive the nomination,
10 do you recall that having a negative impact on the
11 relationship between Twin City Bank and the Arkansas
12 governor's office?

13 MR. THURMAN: I'm going to object to that
14 question. She can't testify as to what relationship
15 Twin City Bank may have had. She can testify, she
16 can tell you what her relationship with the
17 governor's office was, but she certainly can't
18 characterize what the whole bank was.

19 BY MR. NAPPI:

20 Q Sure. Did it negatively impact your
21 relationship with the Arkansas governor's office?

22 MR. PORTNOY: I'm going to object now.

1 MR. NAPPI: No, it goes to the witness's --
2 the nature of her relationship with, not only the
3 Clintons, but close associates of the Clintons.

4 MR. PORTNOY: I understand that. How does
5 that relate to the Resolution?

6 MR. NAPPI: It relates to the investment
7 activities of Whitewater Development Corporation.
8 She worked for a company that controlled the bank
9 that held the Whitewater loan.

10 MR. PORTNOY: The witness has already
11 testified she has absolutely no recollection.

12 MR. NAPPI: So your objection is noted.

13 MR. PORTNOY: No, I'm not prepared to stop
14 explaining my objection or necessarily to permit the
15 witness to answer simply because the objection in
16 your view is noted.

17 At this point, the witness has testified
18 that she has no knowledge of the banking relationship
19 between the Clintons or with respect to the
20 Whitewater investment and Twin City Bank. She has
21 testified that her only knowledge of this matter that
22 she is aware of arose after this Committee's

60

1 investigation began.

2 MR. NAPPI: No, she did not testify as to
3 that. She testified she learned of it after the time
4 period we are dealing with. Your objection is
5 noted. I'm going to rephrase the question.

6 MR. THURMAN: Let me stop you just a
7 minute. You made a comment that she worked for the
8 company that controlled the bank that made the loan.
9 That is absolutely not true.

10 MR. NAPPI: I apologize; if she worked --

11 MR. THURMAN: I don't know what she said
12 that led you to believe she worked for the company
13 that controlled First Ozark.

14 MR. NAPPI: You are right. She worked for
15 a company that was under common control. I
16 apologize. Is that your objection?

17 MR. THURMAN: She had absolutely nothing to
18 do with First Ozark except the one thing she told
19 you, and that was to put in place the personnel
20 policies.

21 MR. NAPPI: Fair enough. I
22 mischaracterized it.

1 BY MR. NAPPI:

2 Q Was Mr. Renaud disappointed when you did
3 not receive the appointment to become banking
4 commissioner?

5 MR. THURMAN: I object to that. She
6 doesn't know whether Mr. Renaud was disappointed.
7 She can't say what was in his mind.

8 BY MR. NAPPI:

9 Q Did he ever -- did he seem disappointed to
10 you?

11 MR. PORTNOY: I object. What is the
12 relevance of Mr. Renaud's reaction one way or the
13 other to Mrs. -- then-Mrs. Davenport's possible
14 appointment as bank commissioner. There is no way in
15 the world that ties into the subject of our
16 Resolution.

17 MR. NAPPI: No, these are facts that relate
18 to the relationship between Mr. Renaud --

19 MR. THURMAN: I'm not -- on investigative
20 matters I do know a little bit about trial lawsuits.
21 If you were before a judge, he would tell you that
22 you would have to ask Mr. Renaud that, so I suggest

62

1 that is what you need to do.

2 BY MR. NAPPI:

3 Q Did Mr. Renaud ever tell you he was angry
4 that you had not received the appointment to banking
5 commissioner?

6 MR. PORTNOY: Once again, there is no
7 relationship between this and anything that is within
8 the scope of the Resolution. Let's go off the record
9 for a minute.

10 (Discussion off the record).

11 BY MR. NAPPI:

12 Q Did Mr. Renaud ever express disappointment
13 that you had not been appointed to be banking
14 commissioner?

15 A My appointment as banking commissioner, I
16 had a job before and I had a job after. It was a
17 personal issue.

18 Q So he did not express disappointment?

19 A Not that I recall.

20 Q Did Mr. Penick express disappointment that
21 you had not received the appointment to become
22 banking commissioner?

1 A Not that I recall.

2 Q Okay. If I could refocus your attention on
3 the 1987 Intercounty Branching Act, the law that
4 dealt with counties with a population of over
5 200,000, do you recall ever having any contact with
6 Betsy Wright regarding this legislation?

7 A Do I recall having any conversation with
8 Betsy Wright regarding --

9 Q Or any contact, any correspondence, any
10 conversation --

11 MR. PORTNOY: Of any kind, on any subject?

12 BY MR. NAPPI:

13 Q Regarding the 1987 --

14 MR. PORTNOY: Okay. I thought you were --

15 MR. NAPPI: No.

16 MR. PORTNOY: With respect to Act 539, is
17 that what you are talking about?

18 BY MR. NAPPI:

19 Q Yes.

20 A I think I testified earlier, I saw those
21 notes and I don't recall any specific detail.

22 Q I think those notes reflect the special

64

1 session.

2 A Oh.

3 Q I'm trying to -- I know it might be
4 difficult to distinguish between the two.

5 MR. THURMAN: Let's take a break for about
6 five minutes.

7 MR. NAPPI: Sure.

8 (Recess.)

9 BY MR. NAPPI:

10 Q I think when we went off the record we were
11 trying to distinguish between the 1987 banking bill
12 and the 1988 banking bill.

13 A Okay.

14 Q And I was asking you about contacts that
15 you may or may not have had with Betsy Wright
16 regarding the 1987 legislation.

17 A I have no recollection of any contacts with
18 Betsy Wright about any banking legislation.

19 Q Does the same hold true for Sam Bratton?

20 A Yes, sir.

21 Q Anyone in the governor's office with
22 respect to -- again, I'm only asking you about Act

1 539.

2 A To the best of my knowledge, I had no
3 contact with anybody about that banking legislation.

4 Q Okay. Do you recall whether the Arkansas
5 Bankers Association supported Act 539?

6 A No, sir, I don't.

7 Q Do you recall whether the banking industry
8 was generally supportive of Act 539?

9 MR. THURMAN: I'm going to object to that.
10 How does she --

11 BY MR. NAPPI:

12 Q You are right. I withdraw.

13 Do you recall whether any banking trade
14 associations supported Act 539?

15 A No, sir.

16 Q Okay.

17 MR. PORTNOY: You don't recall.

18 THE WITNESS: I don't recall.

19 BY MR. NAPPI:

20 Q All right. Returning to the 300-foot issue
21 that we discussed earlier, with respect to the 1987
22 legislation?

1 A Yes, sir.

2 Q What branch of Twin City Bank was going to
3 be affected by this 300-foot provision?

4 A I believe it was our branch on Capitol
5 Avenue.

6 Q Do you recall what the controversy, the
7 issue was there? Let me rephrase that.

8 What bank were you going to be within 300
9 feet of, do you recall?

10 A First Commercial.

11 Q First Commercial.

12 A Yes, sir.

13 Q Do you recall where, what building the Twin
14 City Bank branch was in?

15 A It was in the TCBY Tower.

16 Q Was that then known as Capital Tower?

17 A It could have been, I don't remember, sir.
18 That is what it's known as now.

19 Q Okay. Did you ever serve on the board of
20 the Arkansas Development Finance Authority?

21 A Yes, sir.

22 Q Do you recall the dates of your tenure?

1 A I don't remember when I was first
2 appointed. It was whenever that commission was
3 created. I was one of the first commissioners, and I
4 continue to serve.

5 Q You continue to serve on ADFA?

6 A Yes, sir.

7 Q Who approached you about this appointment?

8 A I'm not sure I understand your question.

9 Q Do you recall the circumstances surrounding
10 your appointment to ADFA?

11 A Nothing other than being honored to be
12 named.

13 Q Do you recall who first asked you if you
14 would be interested in serving on the ADFA board?

15 A No, sir, I don't have that recollection.

16 Q Okay. Do you know an individual named Dan
17 Lasater?

18 A I have met Mr. Lasater, yes, sir.

19 Q Do you recall on how many occasions you
20 have met Mr. Lasater?

21 A No, sir, I don't. Not more than two.

22 Q Did your meetings with Mr. Lasater relate

1 to your official duties on the ADFA board?

2 A No, sir. They weren't meetings; they
3 were -- I recall being introduced to him at a social
4 engagement.

5 Q Do you recall the date of this
6 introduction?

7 A No, sir.

8 Q Do you recall who introduced you to him?

9 A No, sir.

10 Q Do you recall where this engagement took
11 place?

12 A I believe I met him at an open house for
13 the opening of their firm.

14 Q Lasater & Company?

15 A Yes, sir.

16 Q Or a predecessor, perhaps Collins, Locke &
17 Lasater?

18 A Probably.

19 Q Were you on the ADFA board at the time you
20 were invited to this open house?

21 A I can't say exactly because I can't
22 remember the date of the open house. I don't

1 remember when the firm opened.

2 Q Okay. Do you recall the other occasion on
3 which you had contact with Mr. Lasater?

4 A Like I said, not more than two, and as I
5 think about it, that may have been the only time. I
6 just don't have any other recollection.

7 Q Did Mr. Lasater ever recommend you for
8 appointment or reappointment to the ADFA board?

9 A I'm not aware of any recommendation.

10 Q Did you know a gentleman named Michael
11 Drake?

12 A Yes, sir.

13 Q How do you know Mr. Drake?

14 A He was Lasater's -- he was their vice
15 president in their investment banking area who
16 represented them with some ADFA bond financings.

17 Q So did you have contact with Mr. Drake in
18 your official capacity on the ADFA board?

19 A Yes, sir. He would -- I can't remember the
20 number of times, but if they had -- if they were the
21 underwriter on an issue, then he would speak about it
22 in a board meeting.

70

1 Q Did you ever have any contact with anyone
2 else, any other employee of Lasater & Company
3 regarding ADFA underwritings?

4 A Not that I recall, sir.

5 Q Did ADFA ever steer underwriting business
6 to Lasater & Company?

7 A No, sir --

8 Q I will rephrase the question.

9 MR. PORTNOY: "Steer" is a troubling word
10 here.

11 BY MR. NAPPI:

12 Q I will rephrase. Did it ever come to your
13 attention that Lasater & Company should be included
14 in every ADFA underwriting as part of the
15 underwriting group?

16 A No, sir.

17 Q Do you recall any underwritings that
18 Lasater was denied?

19 MR. THURMAN: Excuse me, I'm going to
20 object to that. I don't know what you are getting
21 at, and I don't know -- but they submitted bids and
22 she was just one member of the board. I don't know

1 that -- I object to the form of that question, the
2 word "denied."

3 BY MR. NAPPI:

4 Q Okay. Do you recall any instance where
5 Lasater & Company submitted a bid and it was not
6 accepted?

7 A Sir, I don't have recollections of that
8 many years of who bid for what and who was approved
9 for what.

10 Q So are you answering you do not have any
11 specific recollection of Lasater being denied a bid,
12 or receiving or having their bid accepted?

13 A Right. I don't have specific
14 recollections.

15 Q Do you recall learning that Dan Lasater was
16 the subject of an investigation relating to drugs?

17 A Yes, sir, I do recall reading that in the
18 newspaper.

19 Q Do you recall learning of it while -- at a
20 time when Lasater & Company was -- had a bid pending
21 before ADFA?

22 A Sir, I don't know the timing of it at all.

72

1 Q Okay.

2 A I just recall reading it in the newspaper.

3 Q Was that the first time you had heard such
4 allegations?

5 A Yes, sir.

6 Q Did Twin City Bank ever receive any trustee
7 work with respect to ADFA underwritings?

8 A It's my understanding that they won a few
9 bids.

10 Q How did you come about that understanding?

11 A My memory was refreshed when I saw it in
12 the Times article.

13 Q Did the ADFA board approve -- was the ADFA
14 board responsible for approving trustee bids?

15 A Yes, sir. All trustee relationships were
16 acquired through competitive bidding, and all of the
17 major banks in Arkansas generally bid. And they
18 would bid to the staff, the staff would evaluate the
19 bids, and then make recommendations to the board,
20 which then would approve the recommendation.

21 Q Did anyone from TC Bankshares ever approach
22 you regarding a bid for trustee work on an ADFA

1 underwriting?

2 A No, sir.

3 Q Do you recall when Twin City Bank received
4 its first -- had its first trustee bid accepted?

5 A No, sir, I don't recall.

6 MR. NAPPI: I don't have any further
7 questions. How about you, Mr. Portnoy?

8 MR. PORTNOY: I don't think we have much.

9 EXAMINATION

10 BY MR. PORTNOY:

11 Q Mrs. Eldridge, you testified that you had
12 responsibility for branch banking matters at some
13 point, I believe you said after you became executive
14 vice president?

15 A I said sometime in late '88. We had a
16 reorganization occur, I believe it was in the end of
17 July, and there was a transition period from August
18 through the end of the year, where I was taking over
19 those responsibilities.

20 Q When you were responsible for branch
21 banking matters, you would have had an interest in
22 any legislative proposals that pertained to branch

1 banking matters, I assume?

2 A Yes, sir. It would have been my
3 responsibility to implement any legislation as it
4 pertained to the branches.

5 Q Do you recall whether the legislation that
6 Mr. Nappi has been asking you about, permitting
7 intercounty branch banking was enacted before or
8 after you took on responsibility for branch banking?

9 A It was enacted before.

10 Q It was enacted before?

11 A Yes, sir.

12 Q Did anyone ever suggest to you that the
13 branch banking legislation was enacted because Twin
14 City had some kind of special influence over the
15 governor?

16 A Absolutely not.

17 Q Did anyone ever suggest to you that there
18 was any relationship of any kind between the fact
19 that branch banking legislation was enacted and the
20 fact that there was the Whitewater loan?

21 MR. NAPPI: Wait a minute. "Suggest"?

22 MR. PORTNOY: State or otherwise imply.

1 MR. NAPPI: No, no. "Otherwise imply," I
2 think the question should be did anyone ever --

3 BY MR. PORTNOY:

4 Q I'm happy to rephrase it. Did anyone ever
5 state to you there was any relationship between the
6 fact that branch banking legislation was enacted in
7 the state of Arkansas, and the fact that the Clintons
8 or the Whitewater Development Corporation had a loan
9 with Twin City Bank?

10 MR. NAPPI: I think the witness has already
11 testified she wasn't aware of the Clintons's loan.

12 MR. PORTNOY: I realize that. I'm asking a
13 separate question.

14 BY MR. PORTNOY:

15 Q Did anyone ever suggest to you any kind of
16 relationship or state to you there was any kind of
17 relationship between those two events?

18 A No, sir.

19 MR. NAPPI: So no one ever said there was a
20 relation between the legislation and the loan you did
21 not know about is the question.

22 BY MR. PORTNOY:

1 Q Do you have any reason to believe that
2 there was any relationship between the legislation
3 and the loan?

4 A No, sir.

5 MR. PORTNOY: Mr. Nappi has one question.

6 EXAMINATION

7 BY MR. NAPPI:

8 Q You testified you were not involved in
9 lobbying for the bank; is that correct, ma'am?

10 A Yes, sir. I testified that I was not the
11 bank's lobbyist.

12 Q Okay. And that you don't have any specific
13 recollections of conversations or meetings regarding
14 either the 1987 Act or the 1988 Act?

15 A No, sir, I don't have any recollection.

16 Q So you wouldn't have any recollection of
17 any conversations including a conversation -- that
18 would obviously include a conversation regarding an
19 arrangement between legislation and any outstanding
20 loan; is that correct?

21 A I didn't understand your question.

22 Q That is because I didn't phrase it very

1 well. So the fact that you don't have any specific
2 recollections about any conversation regarding this
3 legislation would naturally subsume any conversation
4 regarding a relationship between legislation and the
5 Whitewater loan; is that correct? You are just
6 saying you have no recollection about any
7 conversations regarding this legislation?

8 A That I recall hearing about the
9 legislation, but I have vague details about it. And
10 I said, I don't have any recollection of discussing
11 this loan with anybody.

12 Q So you have no specific recollection of any
13 conversation regarding this legislation? I just want
14 to clarify that.

15 A I don't have any specific recollection. I
16 have vague recollections of what was generally
17 going -- the general environment at the time.

18 Q The general legislative environment?

19 A Yes, sir.

20 MR. NAPPI: Okay.

21 EXAMINATION

22 BY MR. PORTNOY:

1 Q Let me ask you some specific questions
2 about that, Mrs. Eldridge. Did anyone ever tell you
3 that Twin City Bank had any special influence over
4 the Clinton Administration?

5 A No, sir.

6 Q Do you have any reason to believe that Twin
7 City Bank had any special influence over the Clinton
8 Administration?

9 A No, sir.

10 Q To the best of your recollection, did
11 anyone at Twin City Bank ever ask you to try and
12 influence the Clinton Administration by virtue of
13 your personal relationship with Mrs. Clinton?

14 A Absolutely not.

15 Q You are certain that that never occurred?

16 A I am certain of that.

17 Q To the best of your recollection, did
18 Mrs. Clinton ever ask you for special favors from
19 Twin City Bank?

20 A No, sir.

21 Q Did Governor Clinton?

22 A No, sir.

1 Q Did anybody acting on their behalf?

2 A No, sir.

3 Q So to the best of your knowledge, the
4 relationship between Twin City Bank and the Clintons
5 was completely arm's length and proper?

6 MR. NAPPI: I don't know if she's in a
7 position -- I will object to that. I don't think she
8 can --

9 MR. PORTNOY: I said to the best of her
10 knowledge.

11 MR. NAPPI: No, I object to that. I don't
12 think she has evidenced a recollection of the
13 relationship that would allow her to draw any kind of
14 judgment.

15 MR. PORTNOY: You are free to make that
16 argument.

17 BY MR. PORTNOY:

18 Q The situation remains, do you have any
19 reason to believe that anything about the
20 relationship between the Clintons and Twin City Bank
21 was in any way improper?

22 A No, sir.

1 EXAMINATION

2 BY MR. NAPPI:

3 Q Do you have any knowledge about the
4 relationship between the Clintons and Twin City Bank,
5 any specific recollections at this point in time?

6 MR. THURMAN: Excuse me, I'm going to
7 object to that. That is just so broad that could
8 cover almost everything in the world. Mr. Clinton
9 came to the Christmas party, for crying out loud, and
10 that certainly was a relationship with Twin City
11 Bank.

12 BY MR. NAPPI:

13 Q Okay. Do you have any specific
14 recollections regarding the relationship between
15 Mr. Renaud and the Clintons, the nature of that
16 relationship?

17 MR. PORTNOY: Just a minute. Doug, are you
18 going to go off into another line of questions here?

19 MR. NAPPI: No, I just thought since you
20 were going to start asking general questions about --

21 MR. PORTNOY: Let me finish and then if you
22 want to come back to it --

1 MR. NAPPI: Okay.

2 EXAMINATION

3 BY MR. PORTNOY:

4 Q Mrs. Eldridge, coming back to the question
5 of the branch banking legislation, do you have any
6 reason to believe that that legislation was designed
7 to benefit Twin City Bank specifically?

8 A No, sir.

9 Q Do you have any reason to believe that that
10 legislation was enacted for any reason that related
11 in any way specifically to Twin City Bank?

12 A Are you saying just for Twin City Bank's
13 benefit?

14 Q Yes, ma'am?

15 A No, sir. There were other banks interested
16 at the time.

17 Q Do you recall whether other banks supported
18 the legislation?

19 A Yes, sir -- I shouldn't say I recall. I
20 read that in the paper.

21 MR. NAPPI: At the time, or recently?

22 THE WITNESS: Recently. I told you I only

1 have vague recollections of the general banking
2 legislation environment at that time and was not
3 charged with the responsibility, any responsibility
4 having to do with that legislation, so I don't know
5 all the players involved. I just know that we were
6 not the only bank interested in expansion.

7 BY MR. PORTNOY:

8 Q Okay. Mrs. Eldridge, returning to your
9 consideration for the position of bank commissioner,
10 did anyone in the governor's office ever suggest to
11 you that you would get the position if you took
12 specific action on their behalf of any kind?

13 A No, sir.

14 Q Did anyone suggest to you any kind of quid
15 pro quo, if you help us in this way, we will give you
16 the job?

17 A No, sir. They gave the job to somebody
18 else.

19 Q But no one ever asked you if you would be
20 willing to do something for the administration or for
21 the governor in return for the job, did they?

22 A Absolutely not.

1 Q And just to be clear, to the best of your
2 recollection, nobody ever suggested to you that you
3 would get the bank commissioner's job if somehow you
4 took care of the Clintons's Whitewater loan, did
5 they?

6 A No, sir.

7 Q During your time on the ADFA board, do you
8 have any reason to believe that the selection of
9 underwriters was somehow rigged or fixed?

10 A No, sir.

11 Q Did anyone in the governor's office ever
12 tell you how to vote when selecting an underwriter?

13 A Absolutely not.

14 Q Did anyone ever indicate to you that the
15 governor or the governor's office wanted you to
16 select a particular underwriter or had a preference
17 for a particular underwriter?

18 A No, sir.

19 Q As far as you know, the underwriter
20 selection process was open?

21 A Yes, sir.

22 Q And it was competitive?

1 A Yes, sir.

2 Q And it was fair?

3 A Yes, sir.

4 Q Did you know an ADFA board member named
5 Stout?

6 A Stout?

7 Q Yes, ma'am.

8 A Not that I recall.

9 Q Did you know anybody by the name of Stout?

10 A Not that I recall. You have a first name?

11 MR. NAPPI: Objection. Let's keep moving.

12 MR. PORTNOY: Off the record.

13 (Discussion off the record.)

14 BY MR. PORTNOY:

15 Q Mrs. Eldridge, to the best of your
16 knowledge, did Mr. and Mrs. Clinton receive any kind
17 of special treatment from Twin City Bank that
18 wouldn't be available to any other --

19 MR. NAPPI: What do you mean by "special
20 treatment"?

21 MR. PORTNOY: I will just withdraw the
22 question rather than try and define "special

1 treatment." What I would like to do is take a
2 one-minute or two-minute break and then come back. I
3 may or may not have any further questions.

4 (Recess.)

5 BY MR. PORTNOY:

6 Q Just a few last questions. The gentleman I
7 referred to before, Mr. Stout, is named Charles Stout
8 and he actually served on the board of the Arkansas
9 Housing Development Agency, which was the predecessor
10 agency for ADFA.

11 Do you know this gentleman, Mrs. Eldridge?

12 A No, sir, I don't believe so.

13 Q You testified earlier about the policies of
14 First Ozark with respect to loan documentation. Do
15 you have any firsthand knowledge about what First
16 Ozark's policies were with respect to documentation
17 for loans?

18 A No. The knowledge I have is, in general,
19 the affiliate banks adopted the holding company loan
20 policies. From time to time, they did adjust -- the
21 boards of the local banks would adjust those policies
22 to fit a local situation. So I have never personally

86

1 read the First Ozark complete documentation and
2 policy requirements.

3 Q So you don't know whether a loan could have
4 been in compliance with their policy if, for example,
5 financial statements were not complete? You have no
6 way to know that, do you?

7 A No, sir, I really don't.

8 MR. PORTNOY: That's all I have. Thanks.

9 EXAMINATION

10 BY MR. NAPPI:

11 Q Okay. I want to clarify one thing for the
12 record. Did you say you never had any conversations
13 with Hillary Clinton regarding the Whitewater loan?

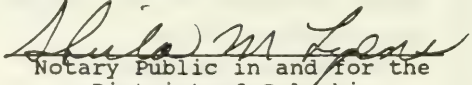
14 A I said I have absolutely no recollection of
15 any conversations whatsoever with Hillary about the
16 Whitewater loan.

17 MR. NAPPI: No further questions.

18 (Whereupon, at 11:58 a.m., the deposition
19 was concluded.)
20
21
22

MARGARET ROZZELL ELDRIDGE

I, SHEILA M. LYONS, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires AUGUST 31, 1997

**DEPOSITION OF GARY W. BUNCH
IN RE: S. RES. 120**

THURSDAY, MAY 2, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of GARY W. BUNCH, called for examination pursuant to notice of deposition, at 4:20 p.m. in Room 640-A of the Hart Senate Office Building, before CINDY L. SEBO, a Notary Public within and for the District of Columbia, when were present:

H. CHRISTOPHER BARTOLOMUCCI, Esq.
Majority Associate Special Counsel
VIET D. DINH, Esq.
Majority Associate Special Counsel
GLENN F. IVEY, Esq.
Minority Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

HOWARD CAIN, JR., Esq.
Madison Bank & Trust
P.O. Box 539
Hunt, Alabama 35894
On behalf of the Deponent.

ALSO PRESENT: JIM PITTRIZZI
JEFF WINTER

CONTENTS

WITNESS**EXAMINATION**

Gary W. Bunch	
by Mr. Bartolomucci	3
by Mr. Ivey	66
by Mr. Bartolomucci	106

1 PROCEEDINGS

2 Whereupon,

3 GARY W. BUNCH

4 was called as a witness and, having first been duly
5 sworn, was examined and testified as follows:

6 EXAMINATION

7 BY MR. BARTOLOMUCCI:

8 Q Good afternoon, Mr. Bunch.

9 Before I begin the questioning, there's
10 some preliminary information I need to impart to
11 you.12 This is a deposition conducted pursuant to
13 Senate Resolution 120 which establishes a special
14 committee to conduct an investigation of Whitewater
15 Development Corporation and certain other related
16 matters.17 The deposition is in advance of public
18 hearings. You might be called to testify at those
19 public hearings. As you know, these questions are
20 going to be put to you under oath.21 If at any time you don't understand a
22 question, let me know, and I'll rephrase it. And

4

1 tell me at any time you want to take a break.

2 The court reporter will prepare a
3 transcript of the deposition which will be treated by
4 the Senate as confidential until the commencement of
5 any hearings.6 In the event that you are called to
7 testify, you'll receive a copy of your deposition,
8 and in any event you'll have an opportunity to review
9 it to note any corrections.

10 You're represented by counsel today.

11 Would counsel please state an appearance
12 for the record?13 MR. CAIN: Howard Cain, Junior, attorney
14 for Madison Bank & Trust, and Mr. Gary Bunch is
15 present.

16 MR. BARTOLOMUCCI: Thank you, Mr. Cain.

17 BY MR. BARTOLOMUCCI:

18 Q Mr. Bunch, just so you know, it's our
19 practice to note for the record objections to the
20 forms of questions, and to permit objections on
21 grounds of privilege or scope.

22 You should know, however, that the

1 Committee chairman ultimately will rule on any
2 objection.

3 A Fine.

4

5

6

7 Q And if you would, would you give us a brief
8 sketch of your educational background?

9 A 12 years of school at Kingston, a couple of
10 years at University of Arkansas, and a couple of
11 years at Arkansas Tech in Russellville, Arkansas.

12 Q Did you obtain degrees from those
13 institutions?

14 A Well, kind of; an extra curricula, but
15 nothing to hang on the wall.

16 Q What field were you studying in?

17 A Several. Too many to mention unless you've
18 got lots of time.

19 Q Nah. Mr. Bunch, am I correct that you're
20 currently the president of Madison Bank & Trust?

21 A Yes, I am.

22 Q And that bank used to be known as the Bank

1 of Kingston?

2 A Yes, it was.

3 Q And your family has a long history with the
4 bank; right?

5 A That's correct. My great granddad started
6 it in 1911 or was instrumental in starting it, the
7 main one. My grand dad was in it. My dad retired in
8 1980. Then my family sold it to Jim McDougal, with
9 the exception of myself.

10 Q Now, how long have you been working at the
11 bank?

12 A Since 1970.

13 MR. IVEY: Can I ask a question? This is
14 Glenn Ivey, I wanted to ask Mr. Cain a question.

15 MR. CAIN: Go ahead.

16 MR. IVEY: Mr. Cain, how long have you been
17 at the bank?

18 MR. CAIN: I think I came on the board
19 about 1981 or '2.

20 MR. IVEY: Did you have any affiliation
21 with the bank prior to 1981 or 1982?

22 MR. CAIN: I had done legal work for the

1 bank.

2 MR. IVEY: Have you had a chance to look at
3 the documents that Mr. Bartolomucci sent down to
4 you?

5 MR. CAIN: Have I personally?

6 MR. IVEY: Yes, sir.

7 MR. CAIN: I reviewed them. I had an
8 opportunity to briefly before the board meeting today
9 to look through them, yes.

10 MR. IVEY: Okay. Do you have any
11 independent recollection or knowledge of any of the
12 documents yourself?

13 MR. CAIN: No, sir, I do not.

14 MR. IVEY: Okay, thank you.

15 BY MR. BARTOLOMUCCI:

16 Q Okay. Mr. Bunch, now, I think you just
17 testified that in 1980, the Bank of Kingston was sold
18 to Jim McDougal; is that right?

19 A That's correct.

20 MR. CAIN: Sir, may I correct one thing?

21 MR. IVEY: Sure.

22 MR. CAIN: This is Howard Cain again.

1 There were some copies of some documents that were
2 faxed that related to some cease and desist orders
3 that I was on the board at the time. And I do have
4 some recollection of those particular items.

5 I don't know if that is relevant to what
6 you're making reference to. But there were some
7 matters that took place back in about 1983 concerning
8 a cease and desist consent order.

9 MR. IVEY: Yes, sir.

10 MR. CAIN: And I am familiar with that.

11 MR. BARTOLOMUCCI: Let's go off the record
12 for a second.

13 (Discussion off the record.)

14 MR. BARTOLOMUCCI: Mr. Cain, you've told us
15 the extent of your involvement in the matters
16 reflected in the documents that I sent to Mr. Bunch?

17 MR. CAIN: Yes, sir, that's correct. I
18 made specific reference to some cease and desist
19 consent orders that took place on or about 1983. And
20 I do have some recollection concerning that. Other
21 than that, I don't have any personal or direct
22 knowledge that I can recall at this time.

1 BY MR. BARTOLOMUCCI:

2 Q Okay. Mr. Bunch, so in the fall of 1980,
3 Jim McDougal bought the Bank of Kingston. Do you
4 recall what percentage of the bank stock he
5 purchased?

6 A Approximately -- well, I don't know exactly
7 what he had; 50 or 60 percent probably. Mr. Smith --
8 I believe he had a split, like 40. I don't really
9 know. Together he and his partner, Mr. Smith, had
10 about, probably about close to 90 percent. No, at
11 that time 80 percent. In the 80s probably.

12 Q Okay. So you don't know the exact
13 percentage that he bought, but it was substantial?

14 A Yes. Yes.

15 Q Would he have been the largest single
16 shareholder?

17 A Yes.

18 Q And it would definitely have been above 25
19 percent?

20 A Yes.

21 Q And was Mr. McDougal the chairman of the
22 board?

10

1 A I believe that was his title then, yes.

2 Q Do you know how long Mr. McDougal retained
3 that level of ownership in the bank?

4 A Probably until '86 when Mr. Willshire
5 bought it.

6 Q Who bought the bank in '86?

7 A Roland Willshire, W-I-L-L-S-H-I-R-E.

8 Q And as far as you know, did the amount of
9 Mr. McDougal's interest in the bank remain constant
10 in that period '80 through '86?

11 A To the best of my memory, yeah, I believe
12 it did.

13 Q Okay. Now, when McDougal bought the bank,
14 you continued to work at the bank; right?

15 A Yes, I did.

16 Q And your position was executive
17 vice president and cashier?

18 A Probably.

19 Q And you were also a board member?

20 A Yes, I was.

21 Q Now, in the 1980s and maybe today, too.

22 But turning your attention to the 1980s, the bank was

1 a small bank?

2 A Yes. We were only like I believe a
3 million 6.

4 Q And --

5 A It wasn't even that. Is that what we were
6 when it was sold? We were around a million dollars
7 when he bought it. Yeah. I don't even think we were
8 a million, were we?

9 Q Now, Mr. Bunch, we're trying to get your
10 memory here. There's nothing wrong with conferring
11 with counsel, but we're just trying to see what you
12 remember.

13 A Okay. Around a million.

14 Q And the number of -- how many people worked
15 at the bank in those days, the 1980s, just roughly?

16 A Well, when dad sold it, there was -- my
17 dad, myself and we had one girl. Three of us.

18 Q So would you say that throughout the 1980s
19 that just a handful of people worked there?

20 A Well, it kind of doubled or tripled after
21 McDougal, after Jim came in in 1980.

22 Q So that it might have been six or nine

12

1 people?

2 A Yes.

3 Q So --

4 A Probably half a dozen average.

5 Q So a bank that small, you knew what was
6 going on; right?

7 A Pretty much, yes.

8 Q Now, when did you become the president of
9 the bank?

10 A I don't even remember. Probably in '86 or
11 '7, after Roland bought it.

12 Q Okay. So during the time that McDougal
13 owned the bank, you were executive vice president,
14 and then you became president after the sale?

15 A I believe that's correct.

16 Q Did you know Mr. McDougal before he
17 purchased the bank?

18 A No, I did not.

19 Q And after he purchased it, how often was
20 Mr. McDougal physically at the bank?

21 A He was there full-time for about a year and
22 a half or something until he ran for Congress. And

1 that was in '82 I would assume.
2 Q So full-time meaning he was there on a
3 daily basis?
4 A Pardon me?
5 Q Full-time meaning he was at the bank on a
6 daily basis?
7 A He was from the time he bought it until he
8 ran for Congress. And I don't remember the date on
9 that.
10 Q But you think that was around '82?
11 A I believe, yes.
12 Q All right. After he ran from Congress,
13 let's say from '82 to '86 --
14 MR. IVEY: Ran for Congress. I think you
15 said ran from Congress.
16 MR. BARTOLOMUCCI: I meant to say for.
17 THE WITNESS: He probably ran from it, but
18 for it to start with it.
19 BY MR. BARTOLOMUCCI:
20 Q I think he now perhaps is running from
21 Congress is what I was thinking about.
22 All right. During that time period, 1982

1 to '86, how often did you see Mr. McDougal?
2 A At least once a month for board meetings.
3 Q Was he at the bank other than that, other
4 than for board meetings?
5 A Yes, occasionally.
6 Q And apart from seeing him, did you talk to
7 him from time to time?
8 A Sure.
9 Q How often? Say, weekly? Every day?
10 A Oh, for sure, weekly, yes. It just
11 varied.
12 Q Now, do you know Bill or Hillary Clinton?
13 A Yes, I do.
14 Q How do you know the Clintons?
15 A Through politics.
16 Q Okay. Can you tell me what you mean by
17 that?
18 A Well, I'm still in -- I'm a Justice of the
19 Peace which is an elected official here in Madison
20 County. We have the JP system in Arkansas. And I've
21 been involved in politics since forever, since I was
22 old enough to vote, and even before that.

1 Q So were you a contributor of -- did you
2 contribute to Mr. Clintons various campaigns?

3 A I may have at some time. I contributed
4 time.

5 Q Oh, you were a volunteer?

6 A Yes, I've done that.

7 Q All right. When do you think you met
8 Mr. Clinton?

9 A I don't have a clue the first time. I
10 guess when he ran for Congress. Hell, I don't even
11 remember when that was.

12 Q And he was running for Congress?

13 A He was running for Congress.

14 Q Okay.

15 A I believe that's right at one time. I
16 guess he ran against Don Pough.

17 Q Now, are you aware --

18 A It would have been in the early '70s.

19 Q Are you a social acquaintance of the
20 Clintons?

21 A I know Bill. I'm not that well acquainted
22 with Hillary, no.

1 Q Have you talked to either of the Clintons
2 since they came to Washington?

3 A No, I have not.

4 Q Now, during the 1980s, what did you know
5 about the relationship between the McDougals and the
6 Clintons?

7 A What did I know about the relationship?

8 Q Yes.

9 A I'm aware of Jim working with Bill when he
10 was governor.

11 Q Did you know that they were business
12 partners?

13 A Yeah.

14 Q Did you see them together?

15 A No -- well, yeah, I guess I've seen them
16 together before.

17 Q Just sporadically?

18 A Not at the bank, no.

19 Q Did Jim McDougal ever talk about his
20 business ventures with the Clintons?

21 A Very little.

22 Q In the '80s, had you ever heard of

1 Whitewater Development Corporation?

2 A Well, when we -- because we had a
3 Whitewater note, of course, we got a copy of a ledger
4 ticket I think in there.

5 Q Right. We'll get to that. I'm just trying
6 to see what you knew about the --

7 A No, that was all, other than being aware
8 they had -- well, Jim had a company called Whitewater
9 Development. And we had a checking account on that,
10 too, the best I remember.

11 Q And did you know the Clintons were involved
12 in Whitewater?

13 A Yes.

14 Q Okay. I want to turn your attention first
15 to this matter that has recently come up in the
16 newspapers involving the bank and the Rose law firm.

17 A Yes.

18 Q Now, do you recall in 1981 and '82 that the
19 Rose law firm did some legal work for the bank?

20 A Yes, I do.

21 Q And this was a case involving the First
22 National Bank of Huntsville?

1 A Yes, it was.

2 Q I think I have an understanding about the
3 case. Let me see if I get this right. In the early
4 part of '81, after McDougal had purchased the bank,
5 McDougal wanted to move the main office, but there
6 was a restrictive covenant in the purchase agreement
7 that prevented it.

8 Is that what the case was about?

9 A That's correct.

10 Q Did you have any involvement in that
11 lawsuit?

12 A No, I didn't.

13 Q Now, the Rose law firm lost that case;
14 right? Madison Bank lost?

15 A Yes.

16 Q Do you remember who the lawyers were at the
17 Rose law firm, who they were, who were involved in
18 the case?

19 A I know now. I didn't then, no. In fact,
20 the first time some of your people called me, I
21 didn't even remember it. But, of course, I'm aware
22 Foster now was the lead counsel.

1 Q Well, but you don't have any memory of who
2 was involved?

3 A No. Because like I said, I stayed out of
4 it, because see my parents sold the Bank of Kingston
5 to McDougal. My dad was still a stockholder in First
6 National Bank here in Huntsville, but Jim had signed
7 the agreement, and also my uncle, which was William
8 B. Bunch and then the Hartvesteds owned stock in Bank
9 of Kingston also, so that's how it all came about.

10 So my dad was still on the board of First
11 National. And I was still working for the Bank of
12 Kingston. And I stayed out of it totally. I had
13 zero to do with it.

14 Q Now, what is your current understanding who
15 the Rose law firm attorneys were that were involved
16 in the case?

17 A This is what I saw, all I know is Vince.

18 Q And you come to this conclusion based upon
19 what?

20 A Documents that the FBI has.

21 Q Documents that the FBI showed you?

22 A Yes, sir.

20

1 Q All right. Now, there was a dispute
2 between the bank and the Rose law firm over the bill;
3 right?

4 A It wasn't really a dispute. We just hadn't
5 paid it.

6 Q Okay. The bill was not paid, that's
7 correct?

8 A No, not for a while.

9 Q Initially it wasn't paid?

10 A It wasn't paid within 30 days.

11 Q All right. So the -- am I correct that
12 this case would have been -- would have been over
13 sometime in '82, the case went up to the Arkansas
14 Supreme Court, and that would have been in about '82?

15 A I believe that sounds right.

16 Q And I assume the Rose law firm billed you
17 folks pretty promptly?

18 A Yes.

19 Q And who decided not to pay the bill?

20 A Jim.

21 Q Do you know why he didn't pay it?

22 A Well, it wasn't we weren't going to pay it,

- 1 we just weren't in any hurry to pay it.
2 Q Okay. Was he mad about something?
3 A Well, no, he wasn't mad. We just had a
4 pretty good licking. And, Lord, we were small, we
5 spent a lot of money for how small we were. We were
6 pretty well drained.
7 Q I was just trying to figure out why he
8 wasn't paying the bill, whether it was just oversite
9 or whether he felt he would pay it later or whatever
10 the problem was.
11 A Well, we can go back and check the
12 financials. We may not have had the money to pay
13 it. I really don't remember.
14 Q How much was the bill that initially wasn't
15 paid?
16 A I don't even know. And I don't -- I don't
17 remember.
18 Q Was it around \$5,000?
19 A I'm thinking it was, yes, 58- or 5900, it
20 seemed like from what I saw from what your people
21 had.
22 Q Well, let's clarify that.
-

- 1 A Your people being the FBI.
2 Q Okay. Just for the record and for your
3 benefit, there's a separate -- the FBI and
4 independent counsel Ken Starr are separate from the
5 Senate Committee, so --
6 A Yes.
7 Q -- I just didn't want anyone reading the
8 deposition to be confused that this was other than
9 our first interview on this subject.
10 A Yes. But I believe to answer your question
11 that Starr investigating team, we'll call them, had
12 documents showing like it was 58- or 5900. And I
13 think we finally came up with proof that we paid like
14 5,000.
15 Q Now, when was the paid?
16 A I don't remember. '84, I believe.
17 Q You think the bill was paid in 1984?
18 A I believe. Like I said, I don't remember
19 specifically.
20 Q Does the fall of '84 sound correct?
21 A That sounds correct.
22 Q And when the bill was paid at that time,

1 was the entire bill paid?

2 A I believe we paid 5,000 of it.

3 Q Okay. So the bill was for a little bit
4 more than 5,000, and the bank paid 5,000?

5 A Yes, sir.

6 Q And was that deemed to be in satisfaction
7 of the entire bill?

8 A Yes, it was.

9 Q So there was no misunderstanding that you
10 continued to owe a few hundred more on top of the
11 5,000?

12 A That's correct. We never did find anything
13 back to substantiate that, but they took the 5,000.
14 And the best I remember, that was what the bill was.

15 Q So if the case was over in '82 and the bill
16 was paid in '84, that's a couple of years. The Rose
17 law firm didn't come calling for two years?

18 A They didn't call me.

19 Q Did the Rose law firm threaten suit?

20 A Not that I know of.

21 Q What do you remember about how the -- what
22 do you remember about how the bill was finally paid?

1 How was a resolution reached?

2 A I didn't remember. But we found it in the
3 minutes where the board approved me to negotiate a
4 settlement and pay it.

5 Q So you've reviewed minutes of a Madison
6 Bank board meeting which reflected that you were
7 authorized by the board to negotiate the payment of
8 the bill?

9 A That's correct.

10 Q And what was the date of these board
11 minutes?

12 A I don't remember. Probably in late '84 or
13 at the time we sent them the money, probably a month
14 before.

15 Q So it was the board's decision then to pay
16 the bill?

17 A That's correct.

18 Q Do you remember what prompted the board to
19 do this?

20 A No.

21 Q Now, you were on the board; right?

22 A Yes, I was.

1 Q And McDougal was still on the board in '84?

2 A Yes.

3 Q Who else was on the board that you recall?

4 A Oh, Mr. Cain, Mr. Brashears, Ms. Baldrige,
5 Mr. Easterling, I guess.

6 Q Do you remember any discussion at the board
7 meetings about this?

8 A I don't remember. I'm sure Jim probably
9 brought it up that we need to pay, so I made a deal
10 with them then.

11 Q Now, is that your memory or are you --

12 A I'm guessing. That's just a guess. Or I
13 may have even had the bill in there at the meeting.
14 Like I said, I don't remember.

15 Q Now, do you remember anyone from the Rose
16 law firm being involved in the settling of the bill
17 dispute?

18 A No. I don't have a clue who I talked to.

19 Q You think you talked to someone at the Rose
20 law firm about this?

21 A Well, I don't remember if I did. But
22 obviously the minutes told me to and we settled for

1 5,000. There never was any correspondence after we
2 paid the 5,000, so I'm assuming that there was
3 something worked out in there, yes.

4 Q Now, do you still have a copy of these
5 minutes?

6 A Yes, we do. We don't have them with us,
7 but...

8 Q But at the bank?

9 A You bet Little Rock has a copy that they
10 can fax you.

11 Q But you still have those documents?

12 A Yeah. Yes, we do.

13 Q Do you have any other documents relating to
14 this matter?

15 A I don't think there was anything else, was
16 there?

17 Q A document that would reflect the payment
18 or anything --

19 A Oh, yeah. There was a general ledger. We
20 finally tracked it down through general ledger
21 tickets. But I don't believe we ever did find a
22 canceled check. And I don't -- I don't know if they

1 ever found the payroll trail or Rose law firm where
2 they deposited it or what.

3 Q Now, did you recently speak to a reporter
4 about this matter?

5 A Yeah, a couple of them, in fact.

6 Q Okay. I'm going to refer you to one of the
7 documents I sent you yesterday.

8 A Yes.

9 Q It's a Washington Post article with
10 Mrs. Clinton's picture on it.

11 A Yes.

12 Q It has a little 16 at the corner. And just
13 for the record, this is an article from the May 1st,
14 '96 Washington Post.

15 I just want to read part of it into the
16 record. It says, "publicly and in sworn interviews
17 with federal investigators, Clinton has said that she
18 met about the S&L loans with James P. McDougal in
19 April 1985 to get him to pay an old Rose law firm
20 bill and to work out a prepayment plan before Rose
21 agreed to do more work for them.

22 But McDougal paid his outstanding bill of

1 several thousand dollars the previous year, according
2 to two people who have reviewed records turned over
3 to Whitewater Independent Counsel Kenneth W. Starr's
4 office. Ronald Clark, the Rose firm's chief
5 operating officer, and Gary Bunch, who worked for
6 McDougal, said the bill was paid about five months
7 before Clinton, a Rose partner, met with McDougal."

8 A Yes, that's correct.

9 Q Now -- okay. So it is your testimony that
10 the bill was paid about five months before April of
11 '85?

12 A Yes.

13 Q Okay. Now, in the second column, it says
14 "Bunch, the bank's former president, also said the
15 bill was paid in the fall of '84."

16 Now, that's been your testimony today?

17 A Correct.

18 Q It goes on. "He said Hillary Clinton was
19 not involved in getting the bank to pay."

20 Is that also correct?

21 A She wasn't involved with me.

22 Q So you have no memory of Mrs. Clinton being

1 involved in the payment of the bill?

2 A Zero, none.

3 Q All right. Down below, the article says,
4 "Bunch said the bank was 'a little draggy' in paying
5 Rose for representation in an appeal of a lawsuit."

6 By a little draggy, I take it you mean the
7 bill wasn't paid right away?

8 A Correct.

9 Q You were a little slow?

10 A Correct.

11 Q And it goes on. "He said that was
12 understandable because the law firm lost the case."

13 A That's correct.

14 Q Now, then the last part I want to read,
15 "Bunch said during the past two months, he has given
16 records to Starr's office including minutes from
17 board meetings in which the Rose bills were
18 discussed."

19 That's true?

20 A I believe she said that. And I just told
21 her she had the right -- somebody had given her the
22 right information, I believe is exactly how it went.

30

1 But...

2 Q Okay. It goes on, it says, "he said he
3 kept no copies of the records and does not remember
4 exact dates."

5 A I told her I didn't know if we had -- I
6 didn't know if Starr's people had took the records or
7 we just made them copies.

8 Q Okay. So this is wrong. You do have
9 copies?

10 A We still got the originals.

11 Q Okay. You've got the originals. Well, the
12 committee may be interested in those. So if you
13 would, please, don't do anything with them.

14 A Don't worry, we're not getting rid of
15 anything.

16 Q All right. We appreciate that.

17 A Go to Starr's office, they have copies of
18 what we got.

19 Q Well, if it comes to it, it may be easier
20 for us to deal with you than with Mr. Starr.

21 But the last thing here is, "he believes
22 that the board authorized negotiations with Rose on

1 settling the bill around September 1984 and made the
2 payment in November 1984."

3 Is that your recollection?

4 A Yes. By the way, for your all's
5 information, this Susan Smith or whoever the hell she
6 is, she had -- she had this information and she
7 called me; I just verified that it was true.

8 So she got it -- had to get it from Starr's
9 camp down there somewhere, because she damn sure
10 didn't get it from me.

11 Q Well, we won't go into here how she got the
12 information.

13 A Okay.

14 Q Now, I've got another article which I
15 didn't send to you. It's an Associated Press piece
16 from May 1st, '96. And it said, "Bunch said the bill
17 was \$5,894, was negotiated downward."

18 Is that correct?

19 A Bunch didn't say that. He said that was
20 the amounts, and I said that sounds like what it was.

21 Q And it is correct that the bill was
22 negotiated downward to 5,000?

1 A That is correct.

2 Q And that was -- and again that was deemed
3 to be in satisfaction of the entire bill?

4 A This is correct.

5 Q All right. I want to refer you to the
6 documents which have numbers 17 and 18 on them.

7 A Okay.

8 Q All right. For the record, this is
9 DKSNO00800 and DKSNO00801. These are two pages out
10 of the sworn interrogatory answers that Mrs. Clinton
11 gave to the RTC.

12 If you'll bear with me for just a minute,
13 Mr. Bunch. I want to read some of this into the
14 record.

15 A Fine.

16 Q "The Rose law firm had first represented
17 Jim McDougal in about 1981 with respect to litigation
18 arising out of his purchase of the Bank of Kingston.
19 I did not work on the 1981 matter, but I recall that
20 Jim disputed the amount of his final bill and refused
21 to pay the entire amount requested.

22 "To the best of my recollection, the

1 president of Madison Guaranty, John Latham, who was a
2 friend of an associate of the Rose law firm, Richard
3 Massey, became interested in having Madison Guaranty
4 issue some kind of preferred stock to raise capital.

5 "Latham had spoken to Massey about doing
6 the related legal work in the spring of 1985. Massey
7 came to see me because he had learned that certain
8 lawyers at the law firm were opposed to doing any
9 more work for Jim McDougal or any of his companies
10 until he paid his bill, and only if Madison Guaranty
11 agreed to prepay a certain sum to the firm once a
12 month to cover fees and expenses.

13 "Under such an arrangement, the firm could
14 be assured that Madison Guaranty was staying current
15 with regard to paying for the new work that the firm
16 might do for it. I believe Massey approached me
17 about presenting this proposal to Jim McDougal
18 because he was aware that I knew him.

19 "I agreed to go see McDougal. And I
20 visited him at his office on April 23rd, 1985 and
21 told him I understood Latham wanted Massey to do some
22 work for Madison Guaranty but that our firm would not

1 let Massey proceed until the previous bill was paid
2 and some kind of prepayment arrangement was worked
3 out for new work -- for new work the firm might do.

4 "As I recall, McDougal agreed Massey could
5 proceed with the work and informed me that he would
6 arrange to pay the past due bill. McDougal also
7 indicated that he was agreeable to some kind of
8 prepayment arrangement."

9 Now, that's Mrs. Clinton's sworn
10 testimony.

11 Mr. Bunch, she's incorrect about there
12 being an outstanding Bank of Kingston bill as of
13 April of '85, isn't she?

14 A Well, to the best of my knowledge, she
15 would be, yes, wrong with her dates, anyway.

16 Q Well, after the bank paid the \$5,000 in the
17 fall of '84, were there any other bills that they
18 owed to the Rose law firm?

19 A None that I've ever seen or heard about,
20 no.

21 Q Do you recall the Rose law firm doing any
22 more work for Madison after the fall of '84?

- 1 A Not that I remember.
- 2 Q Well, can you think of any reason why she
- 3 would be confused about this?
- 4 A Well, certainly, it's been 12 years ago, 11
- 5 years ago, I can see where she could be off a year.
- 6 Q Well, she seems to have a pretty specific
- 7 account of how someone approached her in April of '85
- 8 and wanted to do work for the bank, but there was
- 9 this problem of an unpaid bill. Is any of that true?
- 10 A It was in '84.
- 11 Q Well, what about in '85?
- 12 A '4 is all I know. We were paid in good
- 13 standing. Again then, of course, Jim could still
- 14 have a bill. But the Bank of Kingston, as far as my
- 15 knowledge, didn't have one. Jim McDougal could have
- 16 still had one with her.
- 17 Q The first part of this statement seems
- 18 pretty clear to indicate it was a bill owed by the
- 19 Bank of Kingston.
- 20 But again as far as you know, that bill was
- 21 paid in the fall of '84?
- 22 A That's correct.

- 1 MR. IVEY: Well, let me ask for the
- 2 record. What's the first part you're referring to?
- 3 MR. BARTOLOMUCCI: I'm talking about the
- 4 first paragraph which is the first two sentences.
- 5 MR. IVEY: "The Rose law firm had first
- 6 represented Jim McDougal in about 1981 with respect
- 7 to litigation arising out of his purchase of the Bank
- 8 of Kingston"?
- 9 MR. BARTOLOMUCCI: That's right.
- 10 MR. IVEY: And that clearly indicated what
- 11 to you, that this was a Bank of Kingston bill as
- 12 opposed to a Jim McDougal bill?
- 13 MR. BARTOLOMUCCI: Right, since the
- 14 Huntsville litigation had to do with the purchase of
- 15 the bank, and Jim's desire to essentially move the
- 16 home office. But you know no one has to accept my
- 17 characterization necessarily.
- 18 BY MR. BARTOLOMUCCI:
- 19 Q Mr. Bunch, do you have anything to add on
- 20 this topic?
- 21 A No more with me. No, in other words.
- 22 Q Okay. All right. Let's talk about

1 something different.

2 Now, do you recall that in 1981

3 Mrs. Clinton took out a personal loan from Madison
4 Bank?

5 A Yes.

6 Q And I want to refer you to the document I
7 sent you which has a 1 on it.

8 A Yes.

9 Q For the record this is a document produced
10 to us by Madison Bank, and it has the Number 150 on
11 it.

12 Does this document reflect information
13 about Mrs. Clinton's loan?

14 A Yes, it does.

15 Q And this was a December 16th, 1980 loan in
16 the amount of \$30,000, which was to be paid off a
17 year later?

18 A That's correct.

19 Q Now, this was a personal loan to
20 Mrs. Clinton or Mrs. Hillary Rodham, as she was known
21 then; is that right?

22 A Correct.

1 Q Were you involved in the making of this
2 loan?

3 A No.

4 Q But you knew about it?

5 A Yes.

6 Q Did you know in December of 1980 that she
7 was the wife of the former governor?

8 A Yes.

9 Q Did you know what the purpose of the loan
10 was?

11 A Not at that time I didn't. It wouldn't
12 have made any difference.

13 Q Well, what's your current understanding of
14 what the loan is for?

15 A A house and three acres, and that's my
16 understanding by looking at the note.

17 Q Okay. Did you ever come to learn that this
18 loan was related to the Clintons and McDougal's real
19 estate venture called Whitewater?

20 A Yes.

21 Q All right. When did you learn that?

22 A Two, three years ago.

1 Q Did you have any discussions with
2 Mrs. Clinton about this loan?

3 A No, I did not.

4 Q How about with Mr. Clinton?

5 A No, I did not.

6 Q Jim McDougal?

7 A Not that I even remember with Jim, no.

8 Q Now, do you recall a time when

9 Mrs. Clinton's loan became past due?

10 A I didn't remember it being past due. But
11 obviously it was through some letters that are dated
12 by the vice president Mrs. Pockrus who wrote her a
13 letter I see here.

14 Q I'll identify those for the record. This
15 is DKRT700318, that's a letter from Teresa Pockrus,
16 an executive vice president of Madison Bank addressed
17 to Hillary Rodham dated August 5th, '82.

18 And then there's DKRT400134, a letter from
19 Hillary Rodham to Teresa Pockrus dated August 11th,
20 '82.

21 So you've read these letters over?

22 A Yes.

1 Q And so it's your understanding that
2 Mrs. Clinton's loan did become past due?

3 A That's correct.

4 Q Were you --

5 A By looking at these letters, yes.

6 Q So you weren't aware of that at the time?

7 A No.

8 Q You worked with Teresa Pockrus; right?

9 A Yes, I do.

10 Q Was she a capable bank employee?

11 A Yes.

12 Q Did you have any discussions with
13 Ms. Pockrus about this?

14 A Not that I remember. Teresa was handling
15 that sort of thing. And I was the one at that time
16 waiting on customers, dealing with people one on
17 one. She just did paperwork mostly.

18 Q All right. Did Ms. Pockrus, did she report
19 to you? Were you her boss?

20 A No.

21 Q Okay. So she could write a letter like
22 this and she'd have no reason to mention it to you?

1 A No, she wouldn't. Jim was still both of
2 our bosses then.

3 Q All right. I want to refer you to the
4 document I sent you which is numbered 4, 5 and 6.

5 Do you have those?

6 A Yes.

7 Q Okay. This is a Washington Post article
8 from March 26th, 1994. And on the second page of it,
9 the page with the 5 on it, you're mentioned down near
10 the bottom.

11 A Yes.

12 Q It says "Gary Bunch, who remained an
13 executive at the Bank of Kingston after McDougal
14 bought it from his family, said that 30,000 and
15 20,000 liens that Bill and Hillary took out in 1980
16 and 1981 also would probably not pass scrutiny under
17 current banking laws."

18 Now, the \$30,000 loan that you're referring
19 to there is the same one that we talked about
20 earlier; right?

21 A That's correct.

22 Q And what did you mean -- well, let me ask

1 you this. Did you say or is it your belief that that
2 law probably would not pass scrutiny under current
3 banking laws?

4 A Not today. I've learned a lot about
5 banking since 1980.

6 Q Well, is that a true statement as far as
7 you know?

8 A Yeah, it's a true statement. We probably
9 didn't have anything in the file but a signed note.
10 I'm sure there wasn't a financial statement. No
11 documentation at all.

12 Q All right. If you would, because I'm not a
13 banker, would you explain to me why the loan to
14 Mrs. Clinton wouldn't pass scrutiny under current
15 banking laws?

16 A Because there wasn't any documentation in
17 the file I'm sure.

18 Q What kind of documentation --

19 A Not because of her credit. It's like --
20 since I'm on record on this deal, I was also on
21 record of some interview that I gave somebody, I'd
22 loan her, Hillary or Bill, either one that much on

1 their signature today.

2 But the scrutiny was, it's obvious with all
3 the banking -- in fact, that's why we have -- that's
4 why Jim hired Teresa Pockrus. She is an ex deputy
5 FDIC examiner to dress up the files is what he hired
6 her for specifically and get our documentation up,
7 brought up to speed.

8 Q Okay. What sort of documentation was
9 missing?

10 A I don't know. I don't remember. But it
11 was like most of her files. I mean that's why we got
12 wrote up on the cease and desist -- or one of things,
13 there was very little or, if any, documentation in
14 there, just a signed note, a mortgage would normally
15 be.

16 Q And it's your understanding as a banker
17 that the issuance of a loan with the type of
18 documentation that you found, that would be illegal?

19 A Not illegal. I don't think there's
20 anything illegal about it.

21 Q But it would violate banking law
22 regulations?

44

1 A Good sound banking practices, I believe is
2 how they usually say it; not sound banking practice,
3 in other words.

4 Q And now we've already talked about the fact
5 that Mrs. Clinton's loan did become past due; right?

6 A Well, yes, from what -- I wasn't aware of
7 it. I am aware of it now.

8 Q So maybe there's something to these banking
9 regulations?

10 A Oh, yeah. Oh, yeah. I'm not arguing with
11 you. In fact, I try to get financial statements and
12 tax returns.

13 Q I mean there's a good reason why banking
14 regulations require that certain documents be
15 submitted; right?

16 A Exactly. Like I said, I've learned a lot
17 since then.

18 Q You may have thought that the former
19 governor's wife was a good risk and --

20 A Well, obviously she was. She paid it off.

21 Q But for a while there, it was past due;
22 right?

1 A Well, from looking at this, it was, yes. I
2 don't know how many days it went over.
3 Q Now, Ms. Pockrus's letter DKRT730018 says,
4 "the notice currently reflected is past due as
5 defined by federal and state authorities, a
6 satisfactory agreement needs to be worked out."
7 A Let's see. What does it say about how many
8 days or does it? It doesn't. So I really
9 didn't -- well, the letter was dated August 5th.
10 Let's see. She may have paid that. We
11 don't have a clue that she paid anything. But, yeah,
12 from judging from the correspondence that we have,
13 yes, it was past due.
14 Q Now, in fact, Mrs. Pockrus' letter
15 indicates in the first sentence that the note matured
16 on June 1st of '82. Do you see that?
17 A Yes.
18 Q And the letter's written on August of '82?
19 A Yes. Yes.
20 Q So it was a couple of months past due at
21 that point; right?
22 A Yes, by looking at that.

1 Q All right. Now, in 1983, do you recall if
2 the bank came under scrutiny from federal regulators?
3 A Yes, it did.
4 Q And the bank entered into a stipulation and
5 consent to the entry of an order to cease and desist;
6 is that right?
7 A That's correct.
8 Q And that was an order with the FDIC?
9 A Yes, it was.
10 Q Now, document -- one of the documents I
11 sent you which carries number 7 and 8. Do you have
12 that?
13 A Yes.
14 Q I'll identify it for the record, it's
15 VCH000410 and 411.
16 Mr. Bunch, is that your signature on the
17 second page of the document on page 8?
18 A Yes, it is.
19 Q All right. So this is a copy of the
20 consent to the entry of an order to cease and desist
21 that we're talking about?
22 A Yes.

1 Q And then the next document I sent you, 10
2 and 11. Do you have that?

3 A Yes, I do.

4 Q I didn't send you the whole thing. But
5 this is --

6 A 10 and 11, yes.

7 Q This is an April 27th, 1983 order to cease
8 and desist. It bears Bates number DKSNO0156, and
9 I've also produced here 1157.

10 Is this the order cease and desist that the
11 bank was subject to?

12 A It looks like it, a copy of it anyway.

13 Q Now, one of the things that the FDIC
14 criticized and addressed in its order was the bank's
15 issuance of out-of-territory loans; right?

16 A Correct.

17 Q And Mrs. Clinton's loan would have been
18 considered an out-of-territory loan; right?

19 A Yes, it would.

20 Q Because she was a borrower in Little Rock,
21 the land securing the note was in Marion County. Are
22 these reasons why it would be out of territory?

1 A It would have been out of territory, yes.

2 Q Now, referring you to the page 11,
3 DKSNO0157, which is also the second page of the cease
4 and desist order. Do you see that?

5 A Yes.

6 Q All right. I just want to read part of it
7 for the record. It says, "it is ordered that Madison
8 Bank & Trust Kingston cease and desist from the
9 following unsafe or unsound practices; extending
10 credit outside of the bank's trade area," then it
11 gives an exception. And it says, "for the purpose of
12 this order, the bank's trade area is defined as all
13 of Madison County and the western half of Newton
14 County within the State of Arkansas."

15 So within the terms of this order,
16 Mrs. Clinton's loan was out of the bank's trade area;
17 right?

18 A Well, no, no. I mean we still had where
19 it's found by the board that such a loan could be
20 beneficial to the bank.

21 Q Do you know if any such finding was made
22 with respect to Mrs. Clinton's loan?

1 A I don't remember it, no.

2 Q What was your answer?

3 A No, I don't remember anything
4 specifically. I think -- the only thing I remember
5 specifically was that the examiners at that time that
6 talked to me, it was McDougal himself and his
7 companies, you know, that he owned.

8 He had more money borrowed then he had
9 given for the bank at that time. So that was one of
10 the major things that I remember, that I still
11 remember that they talked to me about.

12 Q Okay. So you recall the FDIC being
13 critical of excessive lending to Mr. McDougal?

14 A Correct.

15 Q But they were also very concerned about
16 out-of-territory lending by the bank, too; right?

17 A Yes.

18 Q And that's what reflected in these
19 documents we've been looking at?

20 A Correct.

21 Q Okay. Now, the bank also received some
22 scrutiny by Arkansas regulators; isn't that right?

50

1 A More of the same, yes.

2 Q All right. I want to go back to The
3 Washington Post article that I -- that we looked at,
4 the one from 1994, which has numbers 4, 5 and 6 on
5 it. I'm sorry to jump around the docs like that.

6 A That's fine. Counsel's doing a good job.
7 Let's take a short break while he's looking
8 this up.

9 MR. IVEY: That would be all right with
10 me.

11 MR. BARTOLOMUCCI: All right. Just tell us
12 when you're back.

13 (A brief recess was taken.)

14 BY MR. BARTOLOMUCCI:

15 Q Okay. Turning your attention to The
16 Washington Post article from '94.

17 A Okay.

18 Q Part of it says, "as head of the Bank of
19 Kingston in Northwest Arkansas, McDougal and his
20 partners came under sharp criticism from then
21 Governor Clinton's banking commissioner Marlin
22 Jackson" --

1 A Excuse me, where are you reading from?

2 Q This is not the Washington Post article
3 with Hillary's picture, but the one that has numbers
4 4, 5 and 6 on it.

5 MR. CAIN: I think we found you, down
6 toward -- two thirds down the page.

7 MR. BARTOLOMUCCI: Yes, it's in the fourth
8 paragraph.

9 MR. CAIN: Okay.

10 BY MR. BARTOLOMUCCI:

11 Q So it said that "McDougal and his partners
12 came under sharp criticism from then Governor
13 Clinton's banking commissioner Marlin Jackson for
14 making too many loans outside of the immediate
15 service area around Madison County." Now is that
16 right?

17 A Yes.

18 Q Okay. So the documents that we just looked
19 at, the cease and desist order, et cetera, those were
20 FDIC documents; right?

21 A Correct.

22 Q So there was separate regulatory attention

52

1 being paid by the state examiners?

2 A Yeah, we were a state bank, still are.

3 Q Sure. And I take it that the state bank
4 board under Marlin Jackson, like the FDIC, was also
5 critical of the out-of-territory lending?

6 A That is correct.

7 Q Okay. If you would find documents 12 and
8 13.

9 A Okay.

10 Q Just for the record, these aren't Bates
11 numbered. But the first document is a letter from
12 Mr. Bunch to Marlin Jackson dated June 5th, '84, then
13 the next page is a chart titled, "strategic plan of
14 action for adversely classified assets."

15 A Correct.

16 Q So on your letter to Mr. Jackson, it says,
17 "enclosed is our June progress report showing the
18 loans that were listed in the examination report of
19 June 27th, '83."

20 The examination report of June 27th, '83
21 would have been an examination by the Arkansas State
22 Bank Department?

1 A Yes.

2 Q And did that report require your bank to do
3 something?

4 A I don't remember if theirs did. Yes, we
5 had to send them reports, the same as we did the
6 FDIC, the best I remember on it, on the cease and
7 desist deal, yes.

8 Q Did the state bank department make annual
9 examinations?

10 A They're just like the FDIC. It's just, you
11 know, periodically. You don't ever know.

12 Q Okay. Well, this second page, it has
13 Number 13 on it.

14 A Right, okay.

15 Q I'm trying to figure out exactly what this
16 is.

17 A Well, that's just a page of all of our
18 classified assets which is we had to give. We had to
19 give them the progress reports on how we were coming
20 on these out-of-territory and et cetera loans.

21 Q Okay. So the third loan listed on this
22 chart is Hillary Rodham, Little Rock.

1 A Right.

2 Q Then it says, "action to be implemented, to
3 be paid within 60 days." So is that a directive that
4 the state bank department laid down?

5 A I think it was probably a directive of the
6 FDIC cease and desist, not just hers, but our
7 classified assets had to drop like on a timetable.
8 Like every so often you had to have them get your
9 percentages down.

10 Q All right. Well, the cease and desist --

11 A To work herself from out of the cease and
12 desist order so we didn't have to make a report every
13 month or two months, whenever we had to make it.

14 Q So you were reporting to the state bank
15 deposit on the progress you were making towards
16 complying with the FDIC cease and desist order?

17 A Yes, that's the way we had to do it. We
18 had to send them a copy saying that. The same we
19 sent the FDIC, yes, they required a copy, too.

20 Q So this document with the 13 on it reflects
21 that Hillary Rodham's loans was one of the ones as to
22 which action had to be taken?

1 A Right. And it was paid off.

2 Q It does note that it was paid off, that's
3 right. This business about to be paid within 60
4 days, where did that come from?

5 A Well, that was on our initial plan of
6 action on our out of territory -- on all our
7 out-of-territory loans.

8 Q Okay. So in order to come up to speed with
9 respect to the cease and desist order, the bank made
10 a determination that Mrs. Clinton's loan had to be
11 paid within 60 days?

12 A I don't know if we made that determination
13 or if she agreed to do it in 60 days. I would
14 assume -- you know, normally we try to get the
15 best -- I remember getting a hold of everybody and
16 seeing what they could do, and then, you know -- I
17 don't think we actually just told her it had to be
18 paid within 60 days.

19 We were trying to get something worked out
20 where we just had something on paper on some kind of
21 a schedule where we could work it out.

22 Q Okay. So it's likely the bank approached

1 her and said this loan has to be paid off, we can't
2 extend it any more?

3 A That's correct. Or we would certainly like
4 for it to be paid off.

5 Q All right. And the fact that to be paid
6 within 60 days, that's a relatively short time
7 period, isn't it?

8 A Yes. And that's what I say, I'm assuming
9 that that was her response, because I don't ever
10 remember us -- actually, I don't think we ever
11 demanded a single loan if I remember. We told them
12 do what you can do, we want it paid off. If they
13 could, we would like to have it even before that, as
14 I recall. I don't remember ever demanding one.

15 Q Okay. But there was some urgency to pay
16 off this loan, though; right?

17 A Hers and everybody else's because we were
18 trying to get those out-of-territory percentages
19 down.

20 Q Now, I want to refer one more time to that
21 Washington Post article, the -- not the one with
22 Mrs. Clinton's picture. It says --

1 A What number are you on?

2 Q I'm on the page with the circled 4. This
3 is again from the March 26th, '94 Washington Post.

4 A Okay.

5 Q "One of those loans made in 1980 was to
6 Hillary Rodham Clinton who borrowed \$30,000 from the
7 Kingston Bank to build a model home on a Whitewater
8 lot. That loan was refinanced at another's state
9 controlled bank after Jackson warned Clinton that
10 McDougal's lending practices at the tiny Kingston
11 bank had drawn attention from federal regulators."

12 Now, do you recall Mrs. Clinton's loan
13 being refinanced at another bank?

14 A I'm aware of it now. I didn't at the time,
15 I didn't know. I wasn't familiar with how it was
16 paid off.

17 Q So you weren't aware at the time of how
18 she -- how she paid off the loan?

19 A No, I was not.

20 MR. BARTOLOMUCCI: Okay. Would you mind if
21 we take just a quick break just for 30 seconds?

22 THE WITNESS: Sure.

1 MR. BARTOLOMUCCI: Okay. Thanks.

2 (A brief recess was taken.)

3 BY MR. BARTOLOMUCCI:

4 Q All right, Mr. Bunch, we're ready to
5 continue. Can I turn your attention to documents 14
6 and 15.

7 A Okay.

8 Q The first is a letter from Charles Campbell
9 to Governor Clinton dated September 30th, '83. And
10 the second is a check from Security Bank to Madison
11 Bank in the amount of \$20,800.

12 Do these documents at all refresh your
13 memory with respect to how Mrs. Clinton's loan was
14 paid off?

15 A No.

16 Q Okay. So you don't know anything about the
17 loan being paid off by the proceeds of a security
18 bank loan?

19 A Not as looking at this. And I've also seen
20 copies of these documents that the FBI had. But
21 until that time, no, I didn't have a clue how they
22 were paid off or where from.

1 Q All right. And you don't know anything
2 about Marlin Jackson maybe arranging for the transfer
3 of the loan to Security Bank?

4 A No.

5 Q All right.

6 A I'm not aware of it.

7 Q Just a couple more questions about this
8 loan. It's our understanding based upon a loan
9 history constructed by the RTC that this 20,800 check
10 from the Security Bank also completely paid off the
11 loan, but that a couple weeks later, there was a
12 payment in the amount of \$5,796 and some odd cents.
13 But -- well, do you know who would have made that
14 payment?

15 A I do not have a clue, no.

16 MR. CAIN: Are we supposed to have a copy
17 of the document you're getting this information,
18 from, sir?

19 MR. BARTOLOMUCCI: No.

20 MR. CAIN: Okay.

21 BY MR. BARTOLOMUCCI:

22 Q The last topic I want to discuss with you

60

1 is the Whitewater loan.

2 A Okay.

3 Q Now, you're aware now that Whitewater
4 Development Corporation had a loan from the bank?

5 A Sure.

6 Q Now, they also had a checking account
7 there; right?

8 A Correct.

9 Q What do you recall about the Whitewater
10 loan?

11 A Nothing.

12 Q Did you ever talk to McDougal about it?

13 A No.

14 Q How about Bill Clinton?

15 A No.

16 Q All right. Let me refer you to document
17 19 --

18 A Okay.

19 Q -- which was produced to us by Madison
20 Bank, I'm afraid the Bates number has been cut off.

21 A The 19 -- the 30,000 note from Whitewater
22 from James McDougal.

1 Q Right. And this is loan number 2,3337;
2 right, it's reflected in the top right-hand corner?

3 A Yes.

4 Q I note down at the bottom, it says it was
5 for operating capital.

6 A Yes.

7 Q Do you have any knowledge about what the
8 purpose of the loan was?

9 A No.

10 Q Do you have any information about who made
11 the payments on this loan?

12 A No, all I know is they're paid off.

13 Q All right. Now, it's your understanding
14 that there was a payment of \$27,600 in November of
15 '82 to retire this loan. Do you have any knowledge
16 about that?

17 A None other than looking at these general
18 ledger tickets, no.

19 Q So you're referring to the document now
20 with a 20 on it?

21 A Yes, I am.

22 Q And this also has Bates Number 147, the

1 document produced to us from Madison Bank. Now,
2 these documents -- these general ledgers reflect a
3 payment toward the Whitewater loan?

4 A Well, yeah, but they've got -- I just
5 noticed this on the loan, they got 23337, and this
6 has got 23337-01.

7 Q What would that dash 01 refer to?

8 A That would be another loan. 23337 should
9 be like dash 00.

10 Q Could that mean that the loan was
11 refinanced or extended or something like that?

12 A Well, it would have to be another loan,
13 yes. 01 should be a different loan from 00.

14 Q But the fact that it's also 23337, that
15 indicates that it's related?

16 A To Whitewater, yes.

17 Q Well, and it's related to the initial loan?

18 A Not necessarily. We still number them like
19 this. When you -- say you come here and got a loan,
20 okay, your number would be like 23338, okay, dash 00,
21 okay. Then if you paid that off or even if you
22 didn't, you come in the next loan would be 23338-01.

1 So this is a different loan.

2 Q All right. Now --

3 A I'm assuming it is by looking at what
4 you've got here. Right, right. I don't know looking
5 at what we got here.

6 Q Now, the statement that's written down
7 below, we were unable to locate the checks for this
8 payment.

9 A Yeah.

10 Q Was that something that one of your people
11 wrote on the document?

12 A I believe it probably was, yes.

13 Q And that indicates that your records simply
14 don't reflect who made this payment?

15 A Correct.

16 Q And I take it that you have not
17 subsequently learned who made the payment?

18 A That's true.

19 Q All right. We've got one more document to
20 look at. Number 21. It's a letter dated October
21 22nd, '86 from Carolyn Huber to Hillary.

22 A Yes, I'm looking at it.

1 Q Down at the third numbered paragraph --

2 A Okay.

3 Q -- it says, "I also spoke to Gary Bunch at
4 Madison Guaranty, and he didn't know anything about
5 the property."

6 A I never worked at Madison Guaranty.

7 Q Now, I gather from this letter that
8 Mrs. Clinton was trying to get -- was having Carolyn
9 Huber gather some information about a Whitewater
10 property.

11 Do you recall Carolyn Huber? Do you recall
12 her calling you to ask about a Whitewater property?

13 A No, I do not. And this says -- if you'll
14 notice, it says Gary Bunch at Madison Guaranty. I
15 was never at Madison Guaranty.

16 Q Well, are you aware of any other Gary
17 Bunches in Arkansas?

18 A No.

19 Q Well, I was just guessing that probably she
20 meant Madison Bank or she was confused.

21 A Probably.

22 Q Do you know Carolyn Huber?

- 1 A No, I do not.
- 2 Q Can you recall ever talking to her?
- 3 A I don't remember talking to her.
- 4 Q All right. Just the last question that I
- 5 have for you is. Have you ever been contacted by
- 6 anyone associated with the White House or the Bill
- 7 Clinton campaign?
- 8 A No, not that I remember.
- 9 Q Have you ever talked to a man named David
- 10 Kendall?
- 11 A David Kendall? No, I don't remember ever
- 12 talking to him.
- 13 Q So other than reporters or the FBI or Ken
- 14 Starr's people or us here at the Senate, has anyone
- 15 ever talked, you know, questioned you about the
- 16 matters we've discussed today?
- 17 A I've been asked so many questions by so
- 18 many people, but I don't remember any, no.
- 19 Q I'm trying to exclude --
- 20 A I certainly never talked to Bill or
- 21 Hillary. And I did speak to McDougal one time when
- 22 he called and said, gave us permission to release

- 1 anything he had personally or something over there.
- 2 I don't remember talking to anybody else.
- 3 MR. BARTOLOMUCCI: All right. I think
- 4 that's all the questions I have at this time. So I'm
- 5 going to turn it over to Mr. Ivey.
- 6 EXAMINATION
- 7 BY MR. IVEY:
- 8 Q Good afternoon. How are you?
- 9 A I've fine.
- 10 Q Are you going to need to take another
- 11 break?
- 12 A No, I'm ready to get through.
- 13 Q Let's go back to this Washington Post
- 14 article, the one --
- 15 A Are you going to ask me about the same
- 16 article?
- 17 Q Yes, I'm asking the questions from a
- 18 slightly different perspective though.
- 19 A All righty. Roll on.
- 20 Q This is Number 16, the number that he put
- 21 on the bottom of it in any event. It's the May '96
- 22 article.

1 A Okay.

2 Q Now, Mr. Bartolomucci read part of this to
3 you. And I wanted to go back through it and make
4 sure I understand exactly what you're agreeing to.
5 Okay?

6 A Okay. What's the number again?

7 Q This is number 16, the heading of the
8 article, "First Lady's account of meeting disputed."

9 MR. BARTOLOMUCCI: The one with the picture
10 on it.

11 THE WITNESS: Yes.

12 BY MR. IVEY:

13 Q All right. Let me read, this is the second
14 paragraph in the article, it says, "publicly and in
15 sworn interviews with federal investigators, Clinton
16 has said that she met about the S&L loan with James
17 P. McDougal in April 1985 to get him to pay an old
18 Rose law firm bill and to work out a prepayment plan
19 before Rose agreed to do more work for him."

20 Have you had a chance to read
21 Mrs. Clinton's interrogatories?

22 A No.

1 Q Okay. So the first part of that in which
2 the reporter is saying that Mrs. Clinton has said
3 this, you don't have any direct knowledge about?

4 A No, I do not.

5 MR. BARTOLOMUCCI: Just so it's clear, he
6 has read the two pages that I sent to him.

7 MR. IVEY: Unfortunately that was after
8 you --

9 THE WITNESS: I didn't read them. You read
10 kind of read over them.

11 BY MR. IVEY:

12 Q Okay. Now, the third paragraph, the one
13 right after that, it says, "but McDougal paid his
14 outstanding bill of several thousand the previous
15 year according to two people who have reviewed
16 records turned over to Whitewater Independent Counsel
17 Kenneth W. Starr, then Ronald Clark, the Rose firm's
18 chief operating officer, and Gary Bunch, who worked
19 for McDougal, said the bill was paid about five
20 months before Clinton, a Rose partner, met with
21 McDougal."

22 I assume you have not talked to Mr. Clark?

- 1 A No, not that I'm aware of.
- 2 Q Okay.
- 3 A Who is Mr. Clark? He's with the Rose law
4 firm? No, not that I remember.
- 5 Q Okay. Now, with respect to the second
6 part, it says that you worked with Mr. McDougal, and
7 you said the bill was paid about five months before
8 Clinton, a Rose partner, met with McDougal.
- 9 And you agree to that part, I take it?
- 10 A Well, I -- I'm agreeing the bank paid the
11 bill in November. And I don't know -- evidently she
12 said that. Like I said, she may have -- I don't know
13 about her testimony.
- 14 Q Fair enough. Let me ask you this: You
15 looked at some documents that you gave to the
16 independent counsel; is that correct?
- 17 A Some of them, why? Which one?
- 18 Q The ones that are mentioned in the article
19 here relevant to the repayment to the -- to the
20 payment of this bill.
- 21 A Yes.
- 22 Q Okay. What all did you look at? What were

70

- 1 the documents that you looked at?
- 2 A We had general ledger tickets and minutes
3 from Madison Bank & Trust that gave me the authority
4 to negotiate the bill and pay it.
- 5 Q What was the date of the general ledger
6 ticket, do you recall?
- 7 A I don't recall, they were in I
8 believe -- but we still have them.
- 9 Q Okay. But you don't have it there with
10 you?
- 11 A Could you hold on just one second?
- 12 Q Sure.
- 13 A We don't have any.
- 14 MR. BARTOLOMUCCI: Can I ask you something,
15 Mr. Bunch, is a general ledger ticket like a
16 receipt?
- 17 THE WITNESS: No, it's a general ledger
18 ticket to balance the bank's general ledger. You
19 know, everything's got a number and a title. It
20 shows that we had a cashier's check, I believe. It
21 shows disbursements to expenses paid.
- 22 BY MR. IVEY:

1 Q And you recall it showed a payment of
2 \$5,000?

3 A Yes, I believe that's right.

4 Q And do you recall roughly when that was?

5 A No -- November, wasn't it, Counselor?
6 Between September and November in '84. We can give
7 you the actual date of the ticket.

8 Q Okay. And now with respect to the minutes
9 that you mentioned, what period were these minutes
10 taken and when did this board meeting take place?

11 A They were about a month prior to the
12 general ledger tickets, weren't they? It was like
13 September and they were October, or it was October
14 and they were November, one or the two. There was
15 like a month or something; pretty close. Within a
16 month or within two months, for sure I think.

17 Q All right. And do you remember
18 who -- well, let me rephrase it.

19 Did you deal with someone at the Rose law
20 firm after that board meeting in which you were
21 authorized to address this debt?

22 A Obviously I did, but I don't have a clue

1 who.

2 Q Okay. Does the name C. J. Glorior ring a
3 bell?

4 A No. There wasn't -- I just don't have a
5 clue. But like I said, obviously I probably did.

6 Q Let me go back to the origin of this bill.
7 This was legal representation with respect to the
8 desire to move the bank; is that correct?

9 A That's correct.

10 Q And that -- I think the bill was sent to
11 you in December of 1981?

12 A Probably.

13 Q All right. And your recollection is the
14 payment was made in the fall of 1984?

15 A Correct.

16 Q Okay. So this is roughly three years that
17 the bill was outstanding?

18 A The bill wouldn't have been -- I don't
19 remember when the appeal was.

20 Q No, I said bill.

21 A I don't know.

22 Q I'm sorry. I said, was this roughly three

1 years that the bill was outstanding, not the appeal,
2 the bill?

3 A No, I think the bill was only like a couple
4 of months. I don't know. Without looking at them, I
5 don't even remember.

6 MR. BARTOLOMUCCI: It's possible that the
7 bill was in '82?

8 THE WITNESS: It would probably be more
9 than likely, I believe.

10 BY MR. IVEY:

11 Q Let me --

12 MR. CAIN: Sir, off the record just a
13 minute. This is Howard Cain speaking.

14 MR. IVEY: Yes, sir.

15 (Discussion off the record.)

16 BY MR. IVEY:

17 Q I wanted to read an excerpt from the
18 Pillsbury, Madison report that addressed this issue
19 at least to some extent. And I'm going to start
20 reading, "other evidence is consistent with this
21 explanation," that's a reference to Mrs. Clinton's
22 interrogatories testimony --

1 MR. BARTOLOMUCCI: Glenn, what page is
2 this?

3 THE WITNESS: I was going to say, where are
4 you reading this from?

5 BY MR. IVEY:

6 Q You don't have this I don't believe. It's
7 page 6 of the Pillsbury Madison report, one piece of
8 it. In any event, the one invoice located is
9 December 23, 1981. But it covers services subsequent
10 to our billing dated December 23, 1981 through May
11 15, 1982. And the listed disbursements go through
12 July 31, 1982. C. J. Glorior, Junior of the Rose law
13 firm sent the invoice to Jim McDougal on October 10,
14 1983.

15 Does any of that ring a bell for you?

16 A No.

17 Q Okay. I've got a copy of what I believe is
18 the invoice that we're talking about here. There's a
19 Bates stamp number 180 on it. At the top of it, it's
20 got Rose law firm, it's dated December 23, 1981. And
21 under that, it's got an account with James B.
22 McDougal, chairman of the board, Bank of Kingston,

1 Kingston, AR 72742.

2 And there's a double line across the top,
3 just above the line, there's CJG in capital letters
4 with a dash, and an SG next to it.

5 And then under that, it says for legal
6 services and professional advice rendered by Vincent
7 Foster, Junior, Carol Arnold and Mary Ellen Russell,
8 subsequent to our billing dated December 23, 1981
9 through May 15, 1982, in connection with the matter
10 of First National Bank of Huntsville v. Madison Bank
11 & Trust, Madison Chancery E-81-112.

12 Then there's a broken line, it goes across,
13 and it's got \$5,000 written next to it.

14 Does that sound like the bill?

15 A It sure does.

16 Q Okay. Under that it's got costs advanced
17 subsequent to our billing dated December 23, 1981
18 through July 31, 1982. And it's got a variety of
19 charges. Total costs from that are 893.63, and then
20 total fees and costs overall are 5,893.63.

21 Does that sound like the bill that we were
22 talking about here with respect to --

1 A The one that somebody showed me.

2 Q Okay. And is that the one you were talking
3 about in the news article?

4 A I wasn't. They're the ones that was
5 talking about it. I told them they had good
6 information wherever the hell they got it.

7 Q But they didn't get it from you?

8 A No.

9 Q All right. Now, attached to that bill, we
10 have a copy of a letter. It's dated October 10,
11 1983. It's on Rose law firm stationery letterhead.
12 It's from C.J. Glorior, Junior, to James B.
13 McDougal.

14 And it says, "Dear Jim, pursuant to your
15 discussion with Hillary Rodham Clinton, I'm enclosing
16 herewith a copy of our firm's statement December 23,
17 1981 covering services rendered in connection with
18 the matter of the firm -- of the First National Bank
19 of Huntsville v. Madison Bank & Trust."

20 Okay. So it seems that this letter
21 references the bill that we were just discussing,
22 would you agree with that?

1 A Probably, yeah.

2 Q Okay. Because it says dated December 23,
3 1981, and we know that the bill was dated that as
4 well.

5 A Yes, from what you're saying, yes.

6 Q Okay. So it appears that C. J. Glorior of
7 the Rose law firm was at least in this correspondence
8 and perhaps other ways discussing this bill with
9 James B. McDougal directly.

10 Do you think that's a fair statement?

11 A It sounds like it.

12 Q Okay. So is it possible given the
13 existence of this letter and the fact that it was
14 attached to this bill that we were discussing, is it
15 possible that Mr. McDougal was having conversations
16 with attorneys at the Rose law firm with respect to
17 this bill?

18 A Of course, it would be possible.

19 Q And --

20 A Yes.

21 Q And were you privy to all of the
22 conversations that Mr. McDougal had with people at

78

1 the Rose law firm?

2 A No, I didn't have -- I was busy taking care
3 of customers.

4 Q Yes, sir. You were executive
5 vice president at that time?

6 A Yes, something.

7 Q And I take it you had a significant amount
8 of responsibility with respect to running the bank
9 yourself?

10 A Correct.

11 Q And Mr. McDougal also --

12 A I was taking care of customers, and
13 Mr. McDougal, Jimmy boy was wheeling and dealing.

14 Q Yes. I take it he didn't run everything by
15 you or other people at the bank before he necessarily
16 did them; is that fair to say?

17 A Fair.

18 Q Okay. So then with respect to this bill,
19 do you know if there had been conversations in the
20 fall of 1984 or in the spring of 1985 with respect to
21 this bill between James McDougal and the Rose law
22 firm that --

- 1 A I don't have a clue.
- 2 Q Okay. Is it possible they were having
- 3 conversations that you're not aware of?
- 4 A Of course, it would be possible.
- 5 Q That wouldn't surprise you given your
- 6 knowledge of Mr. McDougal?
- 7 A Oh, no.
- 8 MR. CAIN: Quit leading the witness here.
- 9 MR. IVEY: That's what they pay me to do.
- 10 BY MR. IVEY:
- 11 Q Now, there's also a mention in this article
- 12 about a meeting in April 1985 between Mrs. Clinton
- 13 and James P. McDougal. Do you see that there?
- 14 A Are we back to our number 16 here? Yes.
- 15 Q Yes, sir.
- 16 A Yes.
- 17 Q Do you see it?
- 18 A Yes.
- 19 Q Do you know anything about that meeting,
- 20 other than what you've read?
- 21 A No.
- 22 Q Okay. So you weren't present at the

- 1 meeting at the time?
- 2 A No, I was not.
- 3 Q Do you have any idea what was discussed at
- 4 the meeting?
- 5 A None.
- 6 Q Okay. So I take it you didn't talk with
- 7 Mrs. Clinton or Mr. McDougal after that meeting took
- 8 place about what had taken place in the meeting?
- 9 A That is correct.
- 10 Q And, again, there's a point here in the
- 11 paragraph -- in this article, it says "Bunch, the
- 12 bank's former president, also said the bill was paid
- 13 in the fall of '84. He said Hillary Clinton was not
- 14 involved in getting the bank to pay."
- 15 Now, I think your testimony previously was
- 16 that, to the best of your knowledge, she wasn't
- 17 involved.
- 18 But, again, you don't know what took place
- 19 or what was said at the April 1985 meeting between
- 20 Mrs. Clinton and Mr. McDougal?
- 21 A I don't have a clue what was between them,
- 22 no.

1 Q Okay. So when you made that statement --

2 A She didn't talk to me.

3 Q I'm sorry?

4 A She never did talk to me about the bill.

5 Q Okay. So this statement that's attributed
6 to you in the article needs to be qualified to the
7 extent it shows your direct knowledge, it doesn't
8 necessarily refer to the meeting between Mrs. Clinton
9 and Mr. McDougal in April of 1985?

10 A That's correct.

11 MR. BARTOLOMUCCI: Now, wait. With respect
12 to his knowledge, it says that the bill was paid in
13 the fall of '84, and he did have knowledge
14 Mrs. Clinton wasn't involved in that; right?

15 MR. IVEY: I don't want you asking
16 clarifying questions. If I've misstated something
17 factually, you can raise that as an objection, as I
18 did earlier. But I'm thinking we've taken turns on
19 asking questions, and I certainly waited for you to
20 finish your questions before I started mine.

21 MR. BARTOLOMUCCI: I meant that as a
22 clarifier.

1 THE WITNESS: We've got some Democrats up
2 there, too.

3 BY MR. IVEY:

4 Q I'm the Democrat.

5 A All right. Shit, I thought we had all foes
6 and no friends. That's good news.

7 Q Let's take that last part off the record.

8 A That would be fine. We better leave it on
9 there, hell.

10 MR. IVEY: Do you have any objection to --

11 MR. BARTOLOMUCCI: It is on the record.

12 THE WITNESS: I ain't got any problem with
13 it.

14 BY MR. IVEY:

15 Q Okay, fair enough. Fair enough. Now, this
16 is also inaccurate in this article where it says that
17 you kept no copies of the records?

18 A Well, I might not have been telling her the
19 whole truth there. Well, I really didn't tell
20 her -- to tell you the honest truth, I think we still
21 got them.

22 But I don't know if they gave them the

1 originals. I'm sure or pretty sure we didn't give
2 them the originals just copies. Yeah, we still got
3 the originals.

4 Hell this other guy, he wanted to come up
5 and read the minutes, the other article you talked
6 about with AP or whoever.

7 Q The AP article?

8 A That guy that did the AP article, yeah.

9 Q I was going to ask you a question about
10 that one, too. I've got a different one from
11 Mr. Bartolomucci.

12 This one says, "the document turned over by
13 the Rose law firm in Arkansas shows McDougal paid off
14 \$5,000 of a 5,894 bill in November 1984 according to
15 two lawyers familiar with the matter and speaking on
16 condition of anonymity."

17 And that's consistent with your testimony,
18 isn't it?

19 A That's correct.

20 Q All right. Now, the -- you said that your
21 understanding was that the \$5,000 was payment in
22 satisfaction of the entire bill?

84

1 A That's correct.

2 Q Okay. And that understanding was based on
3 the conversation you had at the board meeting?

4 A Well, that -- yeah. It was really based
5 on -- yeah, the board gave me the authority to
6 negotiate a deal. We paid them the 5,000. And I
7 don't reckon anybody else ever came up with any more
8 correspondence, nor another bill for the \$800.

9 So I'm assuming we worked OUT the bill.
10 And it must have been all right, because nobody ever
11 produced any other bills from Rose law firm for any
12 other amount --

13 Q Okay. So let me see if I understand.

14 A -- after that.

15 Q Let me see if I understand that. You're
16 saying that the \$5,000 was paid; correct?

17 A Correct.

18 Q Okay. And that you didn't hear anything
19 back from the Rose law firm; correct?

20 A Correct.

21 Q Therefore, you concluded that they accepted
22 the \$5,000 payment as total satisfaction of the bill?

1 A That is correct.

2 Q Okay. Now, let me go back to what I was
3 asking you a minute ago. Are you aware of other
4 conversations that took place between Mr. McDougal
5 and the Rose law firm?

6 A No.

7 Q Okay. So is it possible that the remaining
8 amount of the bill, the amount above the \$5,000 that
9 was paid was negotiated or worked out between
10 Mr. McDougal and the Rose law firm?

11 A Anything's possible.

12 Q You're just not sure one way or the other?

13 A I don't figure it happened, because
14 nobody's produced a copy of it for me. And I'm sure
15 they would have had one if there had been one. But
16 that's my feelings. I could be wrong.

17 Q All right. I don't want to misquote you or
18 anything. But I thought you said that you assumed it
19 was worked out or something like that? Didn't you
20 say that?

21 A I said I'm assuming. I don't have any
22 direct knowledge of anything any different from

1 that. Because like I said, I've never seen any
2 correspondence or any bills after we paid the
3 \$5,000.

4 Q Okay.

5 A But I have no reason to believe that there
6 would be anything different than that.

7 Q Did you recall seeing the letter from
8 Mr. Glorior at the Rose law firm in October of 1983?

9 A I don't remember it.

10 Q So there was some negotiations that took
11 place with respect to the bill that you weren't privy
12 to; is that fair to say?

13 A Yes. Obviously, there was a copy of it.

14 Q I'm afraid you don't have a copy of that.
15 And I apologize for that. But I do want to be --

16 A It's fair to say. I'm sure there could
17 have been, and I wasn't aware of it, yes.

18 Q Now, I think Mr. Bartolomucci read parts of
19 Mrs. Clinton's interrogatory answer, and then asked
20 you sort of an omnibus question about it.

21 I thought I wanted to go through and ask
22 specifically about your knowledge about each part of

1 the statement here. Okay?

2 A What numbers are you making reference to?

3 Q This is 17 and 18 in the package that
4 Mr. Bartolomucci sent to you.

5 A Okay.

6 Q 17, I'm going to read the first paragraph,
7 "the Rose law firm had first represented Jim
8 McDougal in about 1981 with respect to litigation
9 arising out of his purchase of the Bank of Kingston.

10 "I did not work on the 1981 matter, but I
11 recall that Jim disputed the amount of his final bill
12 and refused to pay the entire amount requested."

13 Now, to the best of your knowledge, I think
14 you've already testified that you agreed that
15 Mr. McDougal disputed the amount of the final bill,
16 or am I misquoting you there?

17 A I don't know if he disputed it or he just
18 wasn't in any hurry to pay it.

19 Q All right. And the first part that I read
20 there, "the Rose law firm represented Jim McDougal in
21 about 1981 with respect to the litigation"; you agree
22 with that part, right?

1 A Correct.

2 Q All right. And with respect to the payment
3 issue, you will agree that even if he didn't dispute
4 it, you certainly didn't pay it immediately?

5 A Correct, on the appeal, that's correct.

6 Q The second paragraph, Mr. Bartolomucci read
7 this part to you, let me read it as well, "to the
8 best of my recollection, the president of Madison
9 Guaranty, John Latham, who was a friend of an
10 associate at the Rose law firm Richard Massey became
11 interested in having Madison Guaranty issue some kind
12 of preferred stock to raise capital."

13 Do you know anything about that at all?

14 A No, I do not.

15 Q Okay. So you don't have any basis for
16 confirming it or denying it or disputing it one way
17 or the other?

18 A None, one way or the other.

19 Q Okay. Latham -- I'm going to read some
20 more. "Latham had spoken to Massey about doing the
21 related legal work. In the spring of 1985, Massey
22 came to see me, because he had learned that certain

1 lawyers at the law firm were opposed to doing any
2 more work for Jim McDougal or any of his companies
3 until he paid his bill and then only if Madison
4 Guaranty agreed to prepay a certain sum to the firm
5 once a month to cover fees and expenses."

6 Now, again, I guess this is a matter that's
7 internal to the Rose law firm lawyers. I assume you
8 don't know anything about this either?

9 A I don't have a clue.

10 Q Okay. "Under such an arrangement, the firm
11 could be assured that Madison Guaranty was staying
12 current with regard to paying for the new work that
13 the firm might do for it."

14 Again, this is Madison Guaranty, and I take
15 it you don't know about it?

16 A No, I don't.

17 Q I'm sorry?

18 A No, I don't have a clue.

19 Q Okay. The next paragraph, "I believe
20 Massey approached me about presenting this proposal
21 to Jim McDougal because he was aware that I knew
22 him. I agreed to go see McDougal, visited him at his

90

1 office on April 23, 1985 and told him that I
2 understood Latham wanted Massey to do some work for
3 Madison Guaranty, but that our firm would not let
4 Massey proceed until the previous bill was paid, and
5 some kind of prepayment arrangement was worked out
6 for new work the firm might do."

7 Again, do you have any direct knowledge
8 about that issue?

9 A None.

10 Q Okay. Reading again, "as I recall,
11 McDougal agreed that Massey could proceed with the
12 work and informed me he would arrange to pay the past
13 due bill. McDougal also indicated that he was
14 agreeable to some kind of prepayment arrangement."

15 Again, do you have any direct knowledge
16 about any of that?

17 A None.

18 Q Okay. So all of interrogatory 17A that I
19 just read, you don't have any direct knowledge about
20 any of that, except the issue as to whether McDougal
21 disputed the final bill or not; is that fair?

22 A That's fair.

1 MR. IVEY: Okay. I need just a second. I
2 got a lot of paper on the table here, so bear with
3 me.

4 (Pause.)

5 BY MR. IVEY:

6 Q Let me ask you. Did you have any direct
7 role in dealing with the payment of bills by the
8 bank, other than this special assignment you got from
9 the board?

10 A No.

11 Q So that's not something you normally would
12 have dealt with?

13 A No. Jim usually had a girl to pay them,
14 you know. I'm sure I did pay some, but he'd just
15 give them like every time he goes through the bills,
16 he's tell them what to pay and what not to.

17 Q Let me ask you a question about these
18 out-of-territory loans that were discussed earlier.
19 I believe you testified previously that the FDIC
20 raised the issue of out-of-territory loans when they
21 sent you this cease and desist order, this is page 11
22 or number 11 on the documents Mr. Bartolomucci gave

92

1 to you.

2 A Yeah, that was part of it on the cease and
3 desist, yes.

4 Q Okay. Mr. Bartolomucci read part of it for
5 you, and I wanted to ask you about the middle part.
6 I think you actually started to comment on it in your
7 previous testimony.

8 But the part I want to ask you about, and
9 again this is on page 11, it says, "extending credit
10 outside of the bank's trade area except in such
11 instances, 1, where it is found by the board of
12 directors that such loans would be beneficial to the
13 bank and, 2, where such loans have received prior
14 unanimous approval of the board of directors."

15 So I take it that the cease and desist
16 order did not ban or preclude out-of-territory loans
17 entirely; is that fair to say?

18 A That's true.

19 Q Now, you mentioned that you didn't recall
20 whether the board of directors had dealt with
21 Mrs. Clinton's loan specifically on this?

22 A I don't remember.

1 Q Okay. Do you recall the board of directors
2 dealing with Mrs. Clinton's loan and saying, no,
3 we're not going to allow that loan to be renewed or
4 extended because it's out of territory?

5 A No, I don't image that happening.

6 Q Okay. And it's possible the board never
7 dealt with that issue at all, isn't that a
8 possibility as well?

9 A Yes, that's a possibility. Like I said, I
10 don't remember -- we didn't -- I don't think we ever
11 demanded a single -- on any loan, anybody's.

12 Q Okay. And I recognize that this was over a
13 decade ago -- well, over a decade ago, so your memory
14 might be a little sketchy on it. Nobody is expecting
15 perfect recall after this period of time.

16 A Still I'll break in like I did then. When
17 I got one past due, I kind of handle them with this
18 soft gloves a little while, you know. If they want
19 to play hard ball, we'll play hard ball, but be nice
20 to start with, it usually works.

21 Q With respect to this loan, if you didn't
22 have a board meeting that dealt with this unanimous

1 approval issue, do you know if Mrs. Clinton would
2 have been notified about that one way or the other,
3 about the board meeting?

4 A I wouldn't -- I wouldn't know.

5 Q Okay. Were copies of the cease and desist
6 order sent out to borrowers to your recollection?

7 A No. Hell, no.

8 Q Why would that be?

9 A Well, we weren't really advertising it to
10 the truth.

11 MR. CAIN: We're not allowed to do that
12 anyway.

13 MR. IVEY: And you weren't allowed to do it
14 anyway?

15 THE WITNESS: No, that's FDIC.

16 MR. CAIN: That's a matter of
17 confidential --

18 BY MR. IVEY:

19 Q So it was a confidential arrangement
20 between the bank and the regulators?

21 A That's correct.

22 MR. CAIN: Correct.

1 BY MR. IVEY:

2 Q And Mrs. Clinton -- I guess this is the
3 point I'm trying to get at, Mrs. Clinton wouldn't
4 have had anyway of knowing about it then; is that
5 fair to say?

6 A That's fair to say.

7 Q Okay. So whether or not this was an
8 out-of-territory loan or not and whether or not the
9 bank had decided to grant an exemption to her loan
10 under the cease and desist order would be beyond her
11 knowledge, to your understanding?

12 A That's fair to say, yes. It doesn't
13 appear -- I mean she was just on the list with
14 everybody else that was out of territory.

15 Q Okay. So I take it you had more than
16 Mrs. Clinton's loan made outside the territory?

17 A Hell, yes, that's just one of many.

18 Q Okay. So this wasn't a special break that
19 you gave to Mrs. Clinton on this loan?

20 A No, not hardly, that's just one page.
21 Hell, there's a bunch of pages, some kind of plan of
22 action, but not every one of them.

96

1 Q Now, let's go back to the other Washington
2 Post article. This has got number 4 at the top, on
3 the first page. Mr. Bartolomucci read part of the
4 article which discussed out-of-territory loans.

5 It is the fourth paragraph down, "as head
6 of the Bank of Kingston in Northwest Arkansas,
7 McDougal and his partner came under sharp criticism
8 from then governor banking commissioner Marlin
9 Jackson for making too many loans out of the site of
10 the immediate service area around Madison County."

11 Do you recall that, that being read to you
12 earlier?

13 A I do recall -- not that particular, I just
14 recall I visited with Mr. Jackson over the whole
15 picture from A to Z.

16 Q And if you go to Number 12 and Number 13
17 for me, the documents, one is a letter that you sent
18 to Mr. Jackson, it's dated June 5, 1984.

19 Do you see that document?

20 A Yes.

21 Q Okay. And the one behind it, it's
22 Number 13.

- 1 A Right.
- 2 Q On that document, it says Hillary Rodham,
3 and then if you go across the page to the far column,
4 it says paid off?
- 5 A Correct.
- 6 Q Okay. So I take it from that, Mrs. Clinton
7 paid off the loan?
- 8 A Yes. In other words, our plan of action
9 was to get it paid within 60 days. And then by the
10 time I sent the report in to them, she had already
11 paid it off.
- 12 Q All right. And the action to be
13 implemented column, which is kind of in the middle of
14 the page there, is this based on a plan of action
15 that the bank internally conceived to meet the
16 concerns of the bank regulators?
- 17 A Well, yes.
- 18 Q All right. And then you spoke with
19 Mrs. Clinton as you recall with respect to paying off
20 the loan?
- 21 A I didn't. Evidently Ms. Pockrus did it,
22 but I didn't talk to her, no.

- 1 Q Well, Mrs. Pockrus' letter is from '82 I
2 believe. So this would have been August of '82, so
3 this would have been a little time before.
- 4 But I think your previous testimony was
5 that you didn't just play hard ball and ask people to
6 pay loans immediately; is that correct?
- 7 A No, we did not.
- 8 Q So your thought was that with respect to
9 Mrs. Clinton's loan, you thought that she had
10 responded or suggested that she could pay off the
11 loan in 60 days?
- 12 A That would be my guess, yes, looking at
13 this.
- 14 Q Okay. So you don't recall the bank being
15 particularly concerned about this loan and saying,
16 Mrs. Clinton, you have to pay in 60 days or else?
- 17 A No. Definitely not.
- 18 Q Okay. And I noticed that this page in
19 Number 13 in Mr. Bartolomucci's set of documents has
20 a list of other names on that particular page.
- 21 A That's what I said long ago. That's just
22 one page of several.

1 Q Yes. Down on the side there, it's got page
2 in and 15 next to it.

3 A Yes.

4 Q So I take it there were quite a few loans
5 that the bank was either trying to have paid off or
6 brought current to address the concerns of the
7 regulators; is that fair to say?

8 A If you read that cease and desist order,
9 you know, we had a time frame where they wanted it
10 brought down. I don't really know what they were
11 going to do with it if we didn't. But they gave us
12 something to work toward anyway.

13 Q So I take it there was nothing exceptional
14 or special about Mrs. Clinton's loan, this was just
15 one in a number that the bank was trying to deal with
16 in order to satisfy the regulators?

17 A One of many, yes.

18 Q Okay. Do you recall any special problems
19 with Mrs. Clinton's loan that led you to put it in
20 this category, or was it like many other loans that
21 the bank had?

22 A I don't even remember.

100

1 Q Let me ask you another question about this,
2 too. Mr. Bartolomucci phrased a question to you, and
3 he used the language that included the phrase action
4 that had to be taken. And he connected that with
5 Mrs. Clinton's loan.

6 My understanding of your testimony so far
7 at least is that the action that was taken with
8 respect to Mrs. Clinton's loan was taken by mutual
9 agreement between the bank and Mrs. Clinton, is that
10 fair to say or is that your understanding?

11 A Yes.

12 Q Okay. Did you get any sense from the
13 regulators that they were singling out her loan in
14 particular?

15 A No.

16 Q Now, you were also asked about whether this
17 loan would pass scrutiny under current banking laws.
18 Do you recall that question?

19 A Yes, I do.

20 Q That's language that comes from page 5 of
21 the production Mr. Bartolomucci sent to you. It's at
22 the bottom of that page. And it's part of a

1 Washington Post article. I wanted to ask you a
2 little bit about that.

3 A Okay.

4 Q Now, I think your testimony was that what
5 you meant by that statement was that the bank had not
6 gotten adequate documentation with respect to the
7 loan. And by that I mean, you didn't get financial
8 statements, for example?

9 A May not have. I don't know if I had
10 anything in it or not, I don't know.

11 Q So you may not have?

12 A A lot of our loan files back then didn't
13 have, like I said, didn't have nothing but a signed
14 note, and maybe if there was a mortgage involved,
15 there was a mortgage, but, you know, that was it. No
16 credit reports, no -- of course, no financial
17 statements, no tax returns, the list goes on, if you
18 want to hear some more.

19 Q No, I think that'll cover that.

20 Let me ask you this question. Do you
21 recall hearing or being told that the Clintons had
22 refused to provide any documents that the bank

1 required?

2 A No.

3 Q Okay. So --

4 A Hell, we didn't require it then.

5 Q So any documents that were missing, though,
6 I guess would have been not because of a refusal by
7 the Clintons to provide anything, but just an
8 omission by the bank to request certain types of
9 documents; is that fair to say?

10 A That's fair to say. Hell, we was banking.
11 We wasn't into document business back then. We were
12 loaning money. We had the note and just sign, that
13 was the main ingredient.

14 Q All right. And you also mentioned here,
15 you know, with respect to current scrutiny of banking
16 laws, there have been a lot of changes in the banking
17 laws since the early 1980s; isn't that fair to say?

18 A That's very fair to say. That's right at
19 the beginning, it's really started changing in '80.

20 Q And I guess FOREA, I guess for example, in
21 1989 really made a dramatic change in banking laws
22 across the board; is that a fair statement?

- 1 A Yes.
- 2 Q Okay. And part of those changes were due
3 to the fact that some S&Ls lost quite a bit of money
4 in the mid and late '80s; is that fair?
- 5 A Yes, I think. I don't know what the dates
6 are when the butcher boys, some of the Bush clan,
7 that was later I suppose. You don't hear too much
8 about that. Now, they changed all of our ways of
9 living.
- 10 Q Certainly Mr. D'Amato won't raise the Bush
11 Silverado.
- 12 A I don't think I heard O'Neil's buddy's name
13 brought up. Not what I've been watching anyway.
- 14 Q I bet it'll stay that way too.
- 15 Anyway, let me get you back to this
16 though. The changes in the banking laws, I take it
17 we're not going to go and hold the Clintons
18 retroactively to a standard that may exist now that
19 didn't exist at that time?
- 20 A That is correct.
- 21 Q Okay.
- 22 A I doubt me ever saying scrutiny. I barely

- 1 can say it. I sure couldn't spell it.
- 2 Q I guess the article doesn't put it in
3 quotes at all either. So I guess we can say it
4 was --
- 5 A I'm doubting that's the way it was.
- 6 Q With respect to Mr. Jackson's criticism of
7 the bank, my understanding is that Mrs. Clintons loan
8 was repaid in 1983. This letter that you sent to
9 Mr. Jackson is dated June 1984.
- 10 Do you recall when you first heard
11 complaints or concerns from Mr. Jackson?
- 12 A No, it was after FDIC gave us just a bad
13 exam.
- 14 Q Do you recall if Mrs. Clintons loan was
15 singled out by Mr. Jackson at all?
- 16 A Not that I remember.
- 17 Q When you initially gave this loan to
18 Mrs. Clinton, do you recall giving her any type of
19 special terms? I notice it's a 20 percent interest
20 rate. Were you cutting her a break there?
- 21 A We were going to give her a special deal.
- 22 I don't remember any -- no, no special term, nothing

1 special, nothing.

2 Q Okay. And was \$30,000 an unusually large
3 amount for your bank?

4 A Not then, no. I believe it was 30,000.
5 McDougal filled in with pencil.

6 Q Now, it looks like the loan was due in a
7 year, a one-year type of loan.

8 A Yes.

9 Q Was that -- my understanding is that's
10 routinely done in Arkansas lending practice?

11 A Probably. At that time 90 percent or more
12 of our loans were demand notes.

13 Q Okay. And that's to address --

14 A Probably 90 percent or probably more than
15 that at that time were strictly term notes or demand
16 notes, no payments, just one term.

17 Q And that's to address the usury law?

18 A Yes. It was part of it, and part of it was
19 taking -- and we still do. We stay pretty shortterm
20 here so we don't wind up like the S&Ls.

21 Q So the fact that this was a one-year note
22 for a 30,000 at a 20 percent interest rate, again was

106

1 nothing unusual back in December of 1980?

2 A No. Like I said, I'm sure all of
3 it -- whatever was going right was and we still do
4 the same today, discount plus 5. Now, of course, we
5 have some federal overrides didn't back then, but we
6 still charge the limit, which is 10 today, in case
7 you boys are needing any.

8 MR. IVEY: I may be done. Give me a chance
9 to look through my notes for a moment, if you would.

10 (Pause.)

11 MR. IVEY: I don't have any other questions
12 at this time. Thanks very much for your time, sir.

13 EXAMINATION (Continued)

14 BY MR. BARTOLOMUCCI:

15 Q Mr. Bunch, this is Chris again. I just
16 have a few follow-ups for you. We're almost done
17 here.

18 A Good.

19 Q With respect to the documents that the bank
20 has about the payment of the bill in 1984, do you
21 have a sense of about how many pages of documents
22 those are?

1 A Two, three, four pages. Half a dozen
2 maybe.

3 Q Okay. And those documents are back at
4 Madison Bank?

5 A Yes, at the main bank, yes. We're at the
6 branch here in Huntsville.

7 Q Okay. Other than minutes and general
8 ledgers, are there any other types of documents among
9 those documents?

10 A No.

11 Q All right. Now, Mr. Ivey read to you from
12 a bill dated 1981, and then he read to you from a
13 letter written by Mr. Glorior in 1983. Do you
14 remember that?

15 A I remember him reading it.

16 Q Yes. My question is, you've never seen
17 those documents yourself, have you?

18 A No.

19 Q Okay. So when you were answering questions
20 about them, they were just based upon, you know, what
21 you were hearing from Mr. Ivey?

22 A That's true.

1 Q Okay. If Mr. Glorior of the Rose law firm
2 sent a bill to Mr. McDougal in 1983, is it safe to
3 say that bill wasn't paid?

4 A I don't know, because I don't know what
5 bills could have been incurred down there.

6 Q Well, I guess that's part of the problem
7 with you not having a copy of it yourself.

8 A Well, I'm familiar with it, the one bill --
9 well, actually there was two, the first one we paid
10 for -- when we filed the suit; the second one for the
11 appeal that I've seen Mr. Starr's people had and
12 showed me a copy of, and which was approximately the
13 5800. That's all I'm familiar with.

14 Q Now, if Mr. McDougal was sent a bill for
15 5800 in 1983, that wasn't paid, was it, since you had
16 this business in 1984?

17 A Obviously no. It probably wasn't paid
18 until 1984, no.

19 Q Now, with respect to these board minutes
20 that you've seen in 1984, do you remember whether
21 they reflect that Jim McDougal was there?

22 A I don't remember. I don't even know if we

1 found the minutes down there or if they told who was
2 there.

3 Q So those minutes might not record who was
4 present?

5 A I don't know if they do or not.

6 Q Well, Mr. McDougal was the chairman of the
7 board at that time; right?

8 A He was probably there. He usually attended
9 board meetings.

10 Q He regularly attended meetings?

11 A Yes.

12 Q If he didn't attend, would he have been
13 informed about what the board did?

14 A Sure.

15 Q Could the board take any action without his
16 concurrence?

17 A Yes.

18 Q Was that a yes?

19 A Yes.

20 Q So the board might have acted, but he would
21 have had -- he would have learned about it?

22 A Sure.

1 Q Okay.

2 A Like I said, I'm sure he was there.

3 Q Now, it was your testimony that it was your
4 understanding that the \$5,000 was paid in
5 satisfaction of the entire debt even though the bill
6 might have been several hundred dollars higher than
7 that?

8 A Obviously it was several hundred, yes, but
9 they were willing to take payment in full.

10 Q Okay. So am I correct that it's your
11 understanding that was to end the matter and there
12 would be no remaining debt?

13 A Correct.

14 Q Can you think of any reason why, you know,
15 after a couple of years, you would decide to pay
16 \$5,000 and then hold out on the extra 894?

17 A Hell, yes, it was \$800.

18 Q So you think it's possible that you might
19 have decided to cut them a check for 5,000, and then
20 hold out on 900 bucks?

21 A Think what? I mean, you know, we've talked
22 about this a dozen times. Yes, I mean all we did was

1 make 800 -- saved 800 and paid the 5.

2 Q Well, I'll tell you exactly what I'm
3 getting at. It seems like there are two
4 possibilities here; either you paid 5,000 dollars in
5 order to extinguish the entire debt --

6 A Correct.

7 Q Well, I think --

8 A That's my understanding of what we did.
9 And I explained that a while ago why it's my
10 understanding is. I've never been shown a bill where
11 they billed us for the balance, so obviously they
12 must have settled for it.

13 Q And you can't think of any reason or can
14 you think of a reason why you might have paid 5,000
15 and simply not paid 894? Does that make any sense
16 that you would do that?

17 A No, it makes sense about if I tendered
18 5,000 and saved 900. Water that was already under
19 the bridge, it's like charging on a gas line and
20 groceries; when you didn't burn it, you're not in too
21 big of a hurry to pay it.

22 Q I have one more question about the letter

1 you wrote to Marlin Jackson and the attached chart.

2 A Okay.

3 Q The one that says that Hillary's loan was
4 to be paid within 60 days. Okay. You got that?

5 A Yes.

6 Q That would have been 60 days within when?

7 A To be paid within 60 days of this report,
8 which was dated -- this report looks like it was from
9 April 4 to June 5, '84.

10 Q It's your understanding that the loan was
11 paid off in 1983.

12 A Somebody might have dated this.

13 Q Do you see up in the right-hand corner, it
14 says June 27th, '83?

15 A Yes, I believe that's -- June 27 is the
16 date of the exam. September -- the date of this
17 report, September the 19th, 1983.

18 Q Okay. That was the initial date. And then
19 someone apparently used a document again and wrote in
20 some later dates; is that what happened?

21 A That's what it looks to be, yes, because
22 everything else is typed in.

1 Q Okay. So I guess my question is, was
2 Mrs. Clinton's note to be paid off within 60 days of
3 June or September or some other date?

4 A September I would assume.

5 Q Okay. Just the last question I have is
6 that you're going to gather up all these documents
7 and send them back to me; right?

8 A Yeah. That was my next question, what if I
9 sign this damn thing or wherever it is, this privacy
10 deal --

11 Q The confidentiality agreement?

12 A Yes. You want all this stuff back, is that
13 what I've got to do?

14 Q Yeah, that's right.

15 A That's fine. I ain't got a problem with
16 that.

17 Q Okay. And you can send it to the -- I
18 think there's an address provided on the transmittal
19 letter.

20 MR. BARTOLOMUCCI: Off the record.

21 (Discussion off the record.)

22 MR. BARTOLOMUCCI: Mr. Bunch, thank you for

1 your time. And we're finished here.

2 THE WITNESS: Okay. You all have a good
3 weekend.

4 MR. IVEY: We'll see you next week.

5 THE WITNESS: Okay, sounds good.

6 MR. IVEY: By the way, were you told
7 earlier that you can review your deposition four days
8 in advance of testifying?

9 MR. CAIN: No, we were not.

10 THE WITNESS: No, I don't believe so.

11 MR. IVEY: My understanding is that there's
12 a good chance you'll be a witness. The Republicans
13 make the final call obviously, because they run the
14 show here.

15 But in the event that you are notified
16 you're going to be a witness, you have the right to
17 review your deposition in advance of your testimony.

18 THE WITNESS: Do I have a right to my
19 attorney also?

20 MR. BARTOLOMUCCI: You can certainly bring
21 him, but the Senate won't pay his costs.

22 THE WITNESS: If I can't bring my attorney,

1 I might be hard to find. I've got all kinds of
2 inspections to do. I'm pretty high on documentation
3 in this country now.

4 MR. IVEY: Off the record.

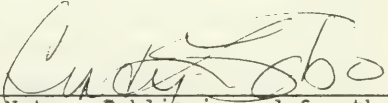
5 (Whereupon, at 6:35 p.m., the deposition
6 was concluded.)
7
8

9 GARY W. BUNCH
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

116

I, CINDY L. SEBO, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires FEBRUARY 14, 2000

**DEPOSITION OF RON A. PROCTOR
IN RE: S. RES. 120**

THURSDAY, MAY 2, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Deposition of RON A. PROCTOR, called for examination pursuant to notice of deposition, at 5:00 p.m. in Room 534 of the Dirksen Senate Office Building, before DAVID L. HOFFMAN, a Notary Public within and for the District of Columbia, when were present:

APPEARANCES

DOUGLAS R. NAPPI, Esq.
 Majority Counsel
 JAMES S. PORTNOY, Esq.
 Minority Associate Special Counsel
 U.S. Senate
 Committee on Banking, Housing, and Urban Affairs
 534 Dirksen Building
 Washington, DC 20510
 On behalf of the Committee.

MURRAY J. BELMAN, Esq.
 Thompson & Mitchell
 700 Fourteenth Street, NW
 Suite 900
 Washington, DC 20005
 On behalf of the Deponent.

CONTENTS

WITNESS	EXAMINATION
Ron A. Proctor	
by Mr. Nappi	6
by Mr. Portnoy	78
by Mr. Nappi	105
by Mr. Portnoy	108

1 PROCEEDINGS

2 MR. NAPPI: Let's go on the record.

3 This deposition is being conducted
4 pursuant to Senate Resolution 120. This resolution
5 establishes a special committee administered by the
6 Banking Committee to conduct an investigation
7 involving Whitewater Development Corporation and
8 related matters.

9 Section 1(b) of Senate Resolution 120
10 authorizes investigation and public hearings into,
11 amongst other issues, the activities, investments,
12 and tax liability of Whitewater Development
13 Corporation, and as related to Whitewater Development
14 Corporation, of its officers, directors, and
15 shareholders.

16 This will be the focus of today's
17 deposition.

18 As I told Mr. Proctor off the record, it
19 appears that he will be called to testify next
20 Wednesday. The deposition of course is in advance of
21 those public hearings.

22 We will ask a series of questions. You

1 will testify under oath. If you don't understand a
2 question, let me know and I will rephrase. If you
3 need a break, please let me know.

4 The stenographer will prepare a record of
5 questions and answers. The depositions will be
6 treated as committee confidential until the
7 commencement of the hearings.

8 Prior to the hearings, you will receive a
9 letter from the committee telling you that you may
10 come to the Senate to review your transcript and make
11 note of any corrections for transcription on an
12 errata sheet.

13 If you are called to testify at a public
14 hearing, you will be permitted to have a copy of your
15 deposition in advance of your testimony.

16 You may be represented by counsel.
17 Objections to form of questions will be noted for the
18 record. Counsel may object on grounds of privilege
19 or relevance. The committee chairman may rule on
20 objections where the witness refuses to answer a
21 question.

22 Please swear in the witness.

1 Whereupon,

2 RON A. PROCTOR

3 was called as a witness and, having been first duly
4 sworn, was examined and testified as follows:

5 EXAMINATION

6 BY MR. NAPPI:

7 Q Please state your name for the record.

8 A Ron Proctor.

9 Q Are you represented by counsel today?

10 A Yes, I am.

11 MR. NAPPI: Will counsel please identify
12 himself?

13 MR. BELMAN: I'm Murray Belman from
14 Thompson & Mitchell.

15 BY MR. NAPPI:

16

17

18 Q Your present business address?

19 A 4th and Main Streets, Flippin, Arkansas.

20 Q You're employed by Mercantile Bank of
21 North Central Arkansas?

22 A This is correct.

1 Q How long have you been employed at
2 Mercantile Bank?

3 A What is now Mercantile Bank, I've been
4 employed there 14.5 years.

5 Q Could you elaborate on that, give us your
6 employment history?

7 A The bank, when I first started in November
8 of 1981, was Citizens Bank and Trust Company, a
9 locally owned, community owned bank, stockholder
10 owned. It became a national bank, and part of the TC
11 Bankshares, in 1986.

12 In 1995, it was purchased along with TC
13 Bankshare by Mercantile Bank of St. Louis, Missouri.

14 Q When did you begin employment at Citizens
15 Bank?

16 A In November 1981.

17 Q In November 1981, did you speak to anyone
18 other than counsel prior to your deposition regarding
19 your testimony?

20 A Well, I've talked to a lot of different
21 people about this within the bank, but no other legal
22 counsel.

1 Q Since being apprised that you would be
2 called for this deposition, have you discussed your
3 testimony with anyone?

4 MR. BELMAN: I think you ought to clarify.
5 The fact that he's testified -- since he's known he's
6 going to testify, he's told a lot of people. You
7 mean the substance of his testimony?

8 BY MR. NAPPI:

9 Q I meant what you had actually testified
10 to?

11 A No. As far as the details, no. Of
12 course, coming to Washington, D.C., and you're going
13 to tell a lot of people, "I'm going to Washington."
14 "Why?" Even people on the airplane. But no, not the
15 details.

16 Q Okay.

17 MR. PORTNOY: Off the record.

18 (Discussion off the record.)

19 MR. NAPPI: Back on the record.

20 BY MR. NAPPI:

21 Q You came to be employed at Citizens Bank
22 in 1981?

1 A Correct.
2 Q Do you recall the month?
3 A November.
4 Q November of '81. Was this your first job
5 in the banking industry?
6 A Yes.
7 Q What position did you have?
8 A I was a management trainee.
9 Q How long were you a management trainee.
10 A Until seven months after that, so
11 approximately June of 1982.
12 Q What position did you --
13 A At that time, I held the position of a
14 loan officer.
15 Q Were you an officer of the bank?
16 A Not an executive officer, but an officer.
17 Q Did you come to be an executive officer of
18 the bank?
19 A Yes. In 1986, maybe '87, the latter part
20 of '86 or early '87, I became vice president of the
21 bank. I was promoted to vice president by the board.
22 Q So by that time, the bank was known as

10

1 First Ozark and was part of TC?
2 A First Ozark, yes, sir.
3 MR. PORTNOY: When precisely did that
4 occur, sir?
5 THE WITNESS: 1986.
6 MR. PORTNOY: So it became First Ozark
7 when it was taken over by TC?
8 THE WITNESS: Yes, within a couple of
9 months after this.
10 MR. PORTNOY: Thank you. Sorry.
11 MR. NAPPI: No problem.
12 BY MR. NAPPI:
13 Q Why don't you just give us the progression
14 of promotions from that point on, in '86?
15 A The only promotion -- in this size of a
16 bank, there's only one other promotion, actually two
17 promotions you can receive. Vice president goes to
18 senior vice president, which I am. I'm senior vice
19 president now. And that was approximately in 1992,
20 when I was promoted to senior vice president.
21 The next step would be executive vice
22 president, which our bank does not have because of

1 its size. So the next would be president of the
2 bank, would be the next promotion.

3 Q As a loan officer in the bank, say
4 starting from June of '82, did you have
5 responsibility for specific types of loans,
6 commercial real estate?

7 A I started off with handling primarily
8 installment loans, personal loans, then went to --
9 because of necessity, started handling every kind of
10 loan, real estate, small commercial. I'd say the
11 majority of my loans I handled during that timeframe
12 was installment loans, personal loans.

13 Q When did it change?

14 A It gradually changed as my experience
15 level changed. Probably 1984 would probably be about
16 the time that I started handling larger commercial
17 loans.

18 Q Do you know if Citizens Bank had a loan
19 outstanding to Whitewater Development Corporation?

20 A Yes.

21 Q Or prior to that, to individuals?

22 A Probably from the time I went into the

1 lending department in 1982, I found out about it
2 shortly thereafter.

3 Q So while you were still working on
4 installment loans?

5 A Yes.

6 Q Do you recall how you found out that bank
7 held the loan that I guess is now commonly referred
8 to as the Whitewater loan?

9 A It could have been from many different
10 things. Probably one of the first things I did when
11 I came into the lending department was review all of
12 our loans to get acquainted with that portfolio. So
13 I saw it when I reviewed the loans.

14 I'm sure that was 13-14.5 years ago, so I
15 don't know exactly how I heard about it. But that's
16 probably where I saw it. Then probably someone told
17 me that that was the governor's -- you know, the
18 governor signed on that. So I remembered that better
19 than I would most loans.

20 Q So when you were reviewing the loan files,
21 you picked up on the fact that it was a loan to the
22 governor?

1 A Right.

2 Q Did there come a time when you became
3 responsible for the Whitewater loan?

4 A Yes. In approximately 1983, probably, I
5 was thrown in as pretty much the division manager of
6 lending at a very early age. So again, by default, I
7 took over the loan.

8 Q Do you recall the first renewal or
9 extension of that loan that you were involved in?

10 A I can't remember the specifics, no.

11 Q Who was responsible for that loan prior to
12 then?

13 A I'm not sure. It was one of two people.
14 It was either Bob Ritter, who was the president of
15 the bank at that time, or George Myers. George was
16 the senior lender at the bank. When he left, I
17 became senior lender.

18 Q When you became responsible for the loan,
19 how did that work? Did someone sit down with you and
20 walk you through the file?

21 A No. The files I took over, I just
22 reviewed them. And whenever they would come up for

1 renewal, of course it was so I would be somewhat
2 acquainted with the loan.

3 Q What was your hands-on experience with the
4 loan? Was it something that required attention?

5 A Not really, no. It was one that was set
6 up on a short-term, single pay loan. So the only
7 time I would really ever think about the loan or deal
8 with it was when it came due for renewal.

9 I say "due for renewal." Single pay loans
10 of that nature are very often renewed. I just
11 anticipated that they wouldn't pay it off, that it
12 would be renewed.

13 Q At that time, 1983, were you responsible
14 for other commercial real estate loans, like real
15 estate development loans in the local area?

16 A There really wasn't any. The bank had not
17 been really strong in the real estate, the
18 subdivision type lending. So there wasn't that many
19 there.

20 Q Was there a lot of subdivision lending
21 going on in Marion County?

22 A No.

1 Q Were you the individual at the bank who
2 was responsible for confirming that payments came in
3 on time?

4 A Yes.

5 Q Do you recall any problems obtaining
6 payments?

7 A No, not during the time period of 1983,
8 because, again, the loans were set up on a single pay
9 with no interest due. And the only time that there
10 was dealing with it was when it matured. So I would
11 say no.

12 Q When it matured, typically there were not
13 principle paid notes in that time period; is that
14 correct?

15 A Sometimes there were and sometimes there
16 weren't. It appeared that when we would ask for
17 principle payments, that we would receive the
18 payments. But if we didn't ask, then just normally
19 interest was paid.

20 Q Was that standard on these types of loans?

21 A At this period in the bank, I would say
22 definitely yes.

1 Q Why do you say at this period?

2 A Banking changed a whole lot from the time
3 I first got into banking in 1981 to the way banking
4 was in 1986, or especially the way banking is today,
5 10 years later.

6 Loans in the middle '70s were made
7 basically on collateral and character only. And now
8 the pendulum has swung almost to the opposite
9 direction. It's capacity only. Cash flow is king,
10 as they say, at Mercantile Bank. That's the
11 difference.

12 So back then we looked at character of the
13 individuals and the collateral, and that it made it a
14 good loan.

15 Q I'm going to ask you to take a look at a
16 series of documents that are various transactional
17 records relating to primarily this loan, or extension
18 or modification agreements.

19 (Handing document to witness.)

20 BY MR. NAPPI:

21 Q Can you just thumb through it, and tell me
22 when you see the first renewal that you recall? I

1 think that first page is actually a note, isn't it?

2 A Well, the first page, I'll say, is dated
3 August 2nd, 1978. So it was before my time with the
4 bank. So I'm not that familiar that much with this
5 particular document. I know this is a copy of a
6 note, or appears to be a copy of the note, from our
7 loan files.

8 (Pause.)

9 Q You can thumb through it. I was just
10 interested in trying to pinpoint when you became the
11 principal. What extension was the first extension
12 you worked on?

13 MR. BELMAN: Could I just ask, are we
14 seeing a set of all the loan documents? Is that it?

15 MR. NAPPI: All the loan documents that I
16 had available to me.

17 MR. BELMAN: So if he goes through it and
18 spies something, it will be the first one that
19 exists?

20 MR. NAPPI: Yes.

21 MR. BELMAN: I just wanted to make sure
22 what we've got here.

1 (Pause.)

2 (Discussion off the record.)

3 THE WITNESS: This would be the first
4 modification or renewal of the loan that I personally
5 handled. That is my signature on there, as assistant
6 vice president, at the time. The note had been paid
7 down to the amount of approximately \$119,000 --
8 \$128,075.

9 MR. PORTNOY: So when you say this is the
10 first extension you handled, could you state the date
11 of the document?

12 THE WITNESS: Yes. The date of the
13 document is the 14th day of October, 1983.

14 MR. BELMAN: I guess that answers your
15 question.

16 MR. NAPPI: Yes.

17 MR. PORTNOY: I was just trying to get a
18 sense of whether you'd worked on any of the others in
19 any capacity?

20 THE WITNESS: No.

21 BY MR. NAPPI:

22 Q In 1983, do you recall who was your

1 contact person for this loan?

2 A Normally it was Susan McDougal.

3 Q You say normally. Did that ever vary?

4 A It did later on in the loan. I dealt with
5 Hillary Clinton.

6 Q Do you recall when you started dealing
7 with Hillary Clinton?

8 A Not the exact time, but approximately
9 1990. There are some records that would show that
10 date, but approximately 1990.

11 Q Did you deal exclusively with Susan
12 McDougal?

13 A No. I was trying to think if Jim McDougal
14 ever talked with me. And I can't recall if he did.
15 I am fairly certain that Susan McDougal and Hillary
16 Clinton were the only ones I dealt with personally on
17 the phone.

18 Q So you don't believe you ever talked to
19 then-Governor Clinton about the loan?

20 A No, I did not. I am positive I never
21 talked with Governor Clinton.

22 Q Have you ever met Governor Clinton?

20

1 A Yes, probably on three different
2 occasions.

3 Q The first document is an August 6th, 1979
4 letter on the letterhead of Citizens Bank and Trust,
5 signed by Frank Burge.

6 (Handing document to witness.)

7 BY MR. NAPPI:

8 Q Do you recall ever seeing this letter?

9 A Yes, I've seen it in the file when I
10 reviewed it.

11 Q Did you ever discuss with any of the
12 borrowers the 10 percent principle reduction that is
13 referenced in this letter?

14 A No.

15 Q Was it your experience that the principle
16 was reduced -- strike that.

17 (Pause.)

18 When you took over the Whitewater loan,
19 was it still subject to a participation agreement?

20 A No.

21 Q It was not. Do you know if, prior to your
22 involvement with the loan, it was subject to a

1 participation agreement?

2 A Yes.

3 Q Do you know the bank that had the
4 participation agreement?

5 A Union National Bank in Little Rock.

6 Q Do you know what happened to their
7 participation?

8 A No.

9 Q But you do know that by the time you took
10 over the loan, they had been paid off?

11 A Right.

12 (Pause.)

13 Q I'd like you to look at a record that is
14 marked with the handwritten notation D84 in the
15 right-hand corner. It's entitled Discount Committee,
16 Citizen Bank and Trust Company. It's dated October
17 20, 1982.

18 (Handing document to witness.)

19 MR. PORTNOY: These are minutes, correct?

20 MR. NAPPI: Yes.

21 BY MR. NAPPI:

22 Q Have you seen this record before?

1 A Yes.

2 Q Do you recall when you saw it?

3 A I would have probably seen the committee
4 minutes at the next committee meeting. We would
5 review the minutes after every -- at the next
6 meeting, so probably somewhere in November 1982.

7 Q What was the discount committee?

8 A It's a meeting consisting of directors and
9 officers of the bank that discuss the approval of
10 loans over a stated limit. Normally, a bank our
11 size, anything over \$75,000 to \$100,000 would go to
12 this type of committee.

13 Q Did it differ in any respect from the loan
14 committee?

15 A No. It is a loan committee.

16 Q And at this point in time, October 1982,
17 it was comprised of officers and directors?

18 A Yes.

19 Q So there wasn't an officer loan committee,
20 and then a directors loan committee?

21 A Yes, there was at that time. The officers
22 committee would see loans up to a certain amount,

1 normally \$75,000 at that time. Anything over
2 \$75,000, the officers and directors committee, or the
3 discount committee as it was referred to then -- it
4 has since been changed. Loans used to be called
5 discounts, is the reason why. That's the reason they
6 call it the discount committee another word for a
7 loan committee.

8 Q Do you recall this meeting?

9 A No. I've attended hundreds of loan
10 committee meetings, and I could not recall that
11 particular one.

12 Q There's reference in this record to
13 collateral, and one item mentioned in collateral is
14 assignment of escrow accounts.

15 A Yes.

16 Q What can you tell us about that? Why was
17 there assignment on the escrow accounts taken?

18 A The land was sold on contracts, with a
19 down payment and so much per month in a monthly
20 payment. Those payments were assigned to be applied
21 to the loan -- very common in the subdivision
22 business. If you want to sell on a contract, you

1 take an assignment of contracts.

2 Q But initially, there was not an assignment
3 of contracts taken initially?

4 A It was my understanding -- and I'm not
5 aware of it because I did not make the recent loan.
6 But it was my understanding that that loan also had
7 included assignment of contracts, and it was just
8 restating of collateral in these minutes. We were
9 going to continue with the assignment of contracts.
10 That was part of collateral.

11 Q So that was your understanding?

12 A Correct.

13 Q Do you recall who told you that?

14 A No, that's just from reviewing the loan
15 file.

16 (Pause.)

17 Q The next item I'd like you to review is a
18 Citizens Bank and Trust letter of October 5th, 1983.
19 You appear to be the signatory. It's been marked
20 with the Bates stamp number DKRT 700422.

21 (Handing document to witness.)

22 BY MR. NAPPI:

1 Q Would you just take a look at this copy?

2 (Pause.)

3 Did you write this letter?

4 A Yes, I did.

5 Q Do you recall this conversation? Actually
6 we weren't a party to the conversation.

7 Do you recall the source of the \$19,000
8 payment, or \$19,593.83 payment referred to?

9 A Well, there's not a payment made yet.
10 That was the principle payoff or the principle
11 amount. So I would answer that, no. I don't know
12 where the money came from. I can't even recall. I
13 know the loan was paid off, but I don't even know if
14 they paid it off from my letter.

15 Q In the last paragraph, there was a mention
16 of the need for individual financial statements.

17 A Right.

18 Q Do you recall having difficulty obtaining
19 financial statements?

20 A Yes. I had difficulty obtaining financial
21 statements during this time from almost everybody
22 because people were used to being good old boys that

1 provided -- I mean, it was very usual for people not
2 to want to see any financial statements at that time
3 in a small country bank where character was king.

4 Q Yet these borrowers weren't local
5 individuals, were they?

6 A No, they weren't. But we were accustomed
7 to that because of dealing with local individuals.

8 Q With respect to just this loan -- I'm just
9 talking about the Whitewater loan -- was it your
10 experience in managing this loan that you had
11 difficulty obtaining financial statements?

12 A Yes.

13 Q Was it a recurring difficulty?

14 A At every anniversary date where we would
15 do one, yes.

16 Q Did you have that difficulty with respect
17 to the McDougals?

18 A Yes.

19 Q And with respect to the Clintons?

20 A Yes.

21 Q Can you quantify who was more difficult to
22 obtain financials from?

1 MR. BELMAN: I think that's a tough
2 question for you to pose.

3 MR. NAPPI: I'll get at it another way.

4 BY MR. NAPPI:

5 Q Who would you contact to obtain financial
6 statements from the Clintons?

7 A If I recollect, it was normally Mrs.
8 McDougal.

9 Q Normally Mrs. McDougal? Do you recall any
10 instances where you contacted the Clintons directly?

11 A I would say that I sometimes would send a
12 letter to possibly Mr. and Mrs. McDougal, or maybe
13 Mr. McDougal, like I did in that letter. But as far
14 as conversations, telephone conversations, it would
15 be with Susan.

16 Q Do you recall having any telephone
17 conversations or any contact with Mrs. Clinton prior
18 to -- you said you guessed that it was around 1990
19 when she became the principle contact person?

20 A I had never spoken with her. I'd never
21 met her or spoken with her before approximately that
22 1990 conversation.

1 Q Was that because she was the Governor's
2 wife and Mr. Strange as bank president would handle
3 contacts with her?

4 A No, I don't think so. I think it was just
5 the fact that she wasn't really involved in the loan
6 until about that time. And it just happened that she
7 called the bank and started talking with Mr.
8 Strange -- probably asked for the president of the
9 bank at that time, because I was unacquainted with
10 her.

11 MR. PORTNOY: So when you say she wasn't
12 really involved in the loan until about that time,
13 did you mean by 1990?

14 THE WITNESS: Yes, involved in the
15 management of the loan. It didn't appear she was.
16 I'd never heard from her.

17 BY MR. NAPPI:

18 Q The next record I'd like you to look at is
19 a commercial loan application. It's dated 10/5/83.
20 You are designated as the officer.

21 (Handing document to witness.)

22 THE WITNESS: Okay.

1 BY MR. NAPPI:

2 Q Have you seen this record before?

3 A Yes, I have.

4 Q In the right-hand corner, it says, "most
5 recent financial statement date." It says 8/30/81.

6 A Yes.

7 Q And it says, "receiving new financial
8 statement before renewing loan." And the most recent
9 financial statement was August 30, '81. So over two
10 years had elapsed at this point in time since you
11 received a financial statement.

12 Is it a customary practice to get
13 financial statements more frequently than that on a
14 commercial real estate loan like this?

15 A Annually, yes.

16 Q Did you ever make inquiry with anybody at
17 the bank as to why they had not received financial
18 statements?

19 A No. Like I said, it was not uncommon for
20 the local people not to provide financial statements.
21 So I was not surprised that there were not current
22 financial statements on someone I perceived at that

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1 early age to be busy being governor of the state.

2 Q You talk about the governor. At this
3 point in time, who was the deep pockets that you were
4 looking to as the ultimate guarantor of payments on
5 this loan?

6 A At this time, the McDougals.

7 Q In the left column there's a description
8 and valuation of collateral.

9 A Yes.

10 Q Did you prepare that valuation?

11 A Yes. Well, I did not prepare the
12 valuation. I summarized it there. This was done
13 from information that was in the file.

14 Q Do you recall obtaining financial
15 statements in connection with this renewal?

16 A At approximately this time we obtained
17 financial statements, yes.

18 Q The next record I'd like you to look at is
19 a financial statement for Whitewater Development
20 Corporation that's dated October 13, 1983.

21 Now, by this time, Whitewater had become
22 the borrower on the loan, right?

1 A Correct.

2 Q And the Clintons and McDougals were just
3 being looked to as guarantors?

4 A Cosigners, I believe. They may be
5 guarantors. It fluctuates. Sometimes it was
6 guarantors. Sometimes it was cosigners.

7 Q What's the distinction?

8 A I haven't yet in the banking business
9 really found any distinction between co-borrowers or
10 guarantors. But in bankruptcy, there are some.

11 Q Is there any reason why it fluctuated from
12 time to time?

13 A Just lender's preference. Sometimes it's
14 easier to get separate guaranty forms signed than it
15 is to get the notes signed. So it just depends.
16 It's for convenience, mostly.

17 Q You weren't motivated by concerns about
18 repayment?

19 A No. That definitely wasn't it.

20 Q All right. If you could just take a look
21 at this.

22 MR. BELMAN: Maybe we could identify it

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1 for the record.

2 MR. NAPPI: I did not?

3 MR. BELMAN: No.

4 MR. NAPPI: I'm sorry.

5 MR. BELMAN: You said it's a financial
6 statement of Whitewater Development, October 13.

7 I'm sorry. You did. And I apologize.

8 I've got it written down.

9 MR. NAPPI: It's getting late. I
10 understand.

11 (Pause.)

12 BY MR. NAPPI:

13 Q As you read that, there are assets listed
14 for the corporation. Land is listed at a fair market
15 value, \$220,000. To be completely accurate,
16 \$220,550. Notes receivable and cash, or dealer items
17 listed as assets. Compare it to this document, which
18 is fairly contemporaneous, separated by a week, I
19 believe.

20 MR. BELMAN: The document you're being
21 asked to compare this to is the previous document
22 dated October 5, 1983, a loan application.

1 MR. PORTNOY: Can we establish whether Mr.
2 Proctor knows who prepared the Whitewater financial
3 statement?

4 THE WITNESS: No.

5 MR. PORTNOY: You don't know?

6 THE WITNESS: At this time we were not
7 required to get people to sign their financial
8 statements. Of course, now it's common practice.
9 But we don't know who.

10 MR. PORTNOY: But you prepared the
11 document to which you're comparing the financial
12 statement?

13 THE WITNESS: I utilized an existing
14 appraisal in the files to put on here to compare.

15 I was going to make the statement that
16 this is very typical. When a person's financial
17 statement exceeds the actual value of what we value
18 the property at, we figure the acreage -- they're
19 figuring 220. We figure there's 183. Escrow
20 contracts at 130. They're figuring 113. Actually
21 the difference between the 77 and the 130 is really
22 what we're figuring. The value is there. So it's

1 worth \$60,000 compared to their \$150,000.

2 BY MR. NAPPI:

3 Q As part of your management of this loan,
4 did you go out to the site and eyeball it?

5 A Yes, I did. Not at that particular time.
6 I was relying on the existing officer's knowledge of
7 the property. After those officers left, then I went
8 out and personally looked at the property.

9 Q When was that, starting when?

10 A I can't recall the exact date -- '87.

11 Q Who was the officer who did it before you?

12 A Robert Ritter.

13 Q Do you recall when he left the bank?

14 A Yes. It was at the end of 1983, the
15 beginning of '84, somewhere around then.

16 Q So he left in '83 or '84, and you started
17 making eyeball appraisals, if you will, or visits out
18 to the property in '87?

19 A Right.

20 Q Did anyone do anything in the intervening
21 time period?

22 A Probably not.

1 Q Do you recall a time when Chris Wade
2 purchased or traded for some of the parcels of
3 Whitewater?

4 A I remember that very well.

5 Q Can you walk us through what happened?

6 A After the loan was paid down to a
7 relatively low level, \$50,000 or so, Mr. Wade come in
8 to see me and said that he wanted to assume the debt.
9 He showed me a document that he had purchased the
10 land, made a trade of an airplane for the land, along
11 with some cash, and said, "Now, I want to take on
12 responsibility for the debt."

13 My reaction to that -- and I've dealt with
14 Chris Wade for many years -- was that, I'm proud that
15 you purchased it because I really thought he would
16 get them sold quicker because he was managing them
17 there locally. But there's no way that anybody would
18 be released from liability on the loan until the loan
19 was paid in full.

20 Now, that came as somewhat of a
21 disappointment to Mr. Wade.

22 Q Why was that?

36

1 A Because I think -- now I shouldn't say I
2 think. My feeling was --

3 MR. BELMAN: Do you know?

4 THE WITNESS: No. I should not say that.

5 MR. BELMAN: That's your answer.

6 BY MR. NAPPI:

7 Q So Wade wanted to assume the liability?

8 A Yes.

9 Q And of course, being a prudent banker, you
10 wanted to keep as many sources of repayment --

11 A Oh, sure. I was at this point -- just had
12 the loan where I liked it. It was paid down to a
13 level that I was comfortable with. The escrows were
14 amortizing payments. So it was now what I considered
15 to be, you know, we worked through the hard times
16 during the early part of the loan when it was a large
17 amount and lot sales were slow.

18 Now we had it just where we wanted it, and
19 I was going to keep it that way. I wasn't going to
20 mess up the loan. It was good and safe at that
21 point.

22 Q You said lot sales had been slow. I take

1 the business plan initially had been to sell
2 individual lots on a contract for deed?

3 A Correct.

4 MR. BELMAN: Do you know the answer to
5 that question?

6 THE WITNESS: Yes, based upon reading from
7 the file. Yes, that would be correct.

8 MR. BELMAN: Could I just interject one
9 thing about this? When you talk about Chris Wade, I
10 don't think you put in a date. I'd just ask if you
11 know when that was?

12 THE WITNESS: That would have been the
13 late '80s.

14 MR. NAPPI: Wait. I can perhaps provide a
15 date.

16 THE WITNESS: '89.

17 BY MR. NAPPI:

18 Q I was talking about the transaction in
19 which Mr. Wade transferred the airplane to Mr.
20 McDougal?

21 A That was the one I was referring to also.
22 It was '88 or '89.

1 MR. NAPPI: Actually, my chronology shows
2 May of '95.

3 MR. BELMAN: I think in fairness to the
4 witness, if you've got a document there, why don't
5 you show him the document so he can refresh his
6 recollection if he needs to?

7 MR. NAPPI: I'll probably come back to
8 that.

9 MR. BELMAN: Well, you did it. Why don't
10 we tidy this part up? I'm a little concerned about
11 leaving loose ends all over this transcript.

12 MR. PORTNOY: Off the record.

13 (Discussion off the record.)

14 MR. NAPPI: I'd like the witness to take a
15 look at a security release agreement dated May 4,
16 1985.

17 (Handing document to witness.)

18 THE WITNESS: Time is definitely slipping
19 by.

20 BY MR. NAPPI:

21 Q It goes faster every day.

22 A Gosh, I would have sworn this was just a

1 few years ago. It's been 11 years.

2 Was your question, did you want me to
3 identify the document?

4 MR. BELMAN: Well, I think Mr. Nappi was
5 showing you the document in order to see whether that
6 refreshes your recollection about when the
7 transaction that you talked about, when the
8 conversation you talked about with Mr. Wade occurred.

9 THE WITNESS: Yes.

10 MR. BELMAN: I take it you now think that
11 occurred sometime around May 1985?

12 THE WITNESS: Yes.

13 MR. PORTNOY: If I could clarify, does
14 this document actually refresh your recollection, or
15 are you saying that you have no reason to dispute the
16 accuracy of the document?

17 THE WITNESS: No. It refreshes my
18 recollection. That was definitely the year.

19 BY MR. NAPPI:

20 Q As you recall, was this a conveyance to
21 Wade of the remaining lots at Whitewater?

22 A Yes, subject to our mortgage.

1 Q So the Whitewater Development Corporation,
2 in some capacity, the Clintons and McDougals were
3 made liable for default on the mortgage?

4 A Yes.

5 MR. BELMAN: Did you say remained?

6 MR. NAPPI: Remained.

7 BY MR. NAPPI:

8 Q The assets had been transferred or traded
9 to Mr. Wade for another asset?

10 A Right.

11 Q Were you surprised at the valuation of the
12 land in this transaction?

13 A I don't think so.

14 Q So that is your sense of what these lots,
15 the value that these lots had?

16 A Because I really didn't know what the
17 value of the airplane was. I know there was some
18 cash involved, and then the airplane -- not being an
19 expert on the airplane, I said, "Gosh, it must be a
20 nice airplane."

21 Q Did it surprise you that Whitewater had
22 moved from marketing a contract for deed lots to, in

1 essence, doing the bulk sale of its remaining lots
2 for cash?

3 A No. It didn't surprise me, because I know
4 from visiting with Mr. Wade that they really had an
5 interest in getting it resolved, getting it closed
6 out. Wade, I think, was trying to take care of them
7 on that issue by doing this.

8 Q What do you mean by take care of them?

9 A Getting them out of dealing with that. He
10 felt that the McDougals, and the Clintons for that
11 matter -- again, I only talked about Mrs. Clinton,
12 and I hadn't talked to her at that point. But my
13 perception is that they wanted out. After being in a
14 subdivision development for 10 years, anybody would
15 want to be out.

16 Q Is it strange for this kind of subdivision
17 to take that long?

18 A Yes, very much so. Most of the time,
19 three to five years is your period of time on a
20 subdivision, at the most.

21 Q Do you know why this subdivision took so
22 much longer?

1 MR. BELMAN: This witness is not in the
2 business of handling subdivisions, or didn't follow
3 this particular subdivision.

4 BY MR. NAPPI:

5 Q Did anyone involved in the Whitewater
6 Development Corporation ever express to you their
7 view on why the subdivision was not moving?

8 A No.

9 MR. BELMAN: We've been going an hour. Do
10 you want to take a break for a few minutes?

11 MR. NAPPI: Off the record.

12 (Discussion off the record.)

13 (Recess.)
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(6:00 p.m.)

MR. NAPPI: Let's go back on the record.

BY MR. NAPPI:

Q Mr. Proctor, I'd like you to take a look at another record. I won't even begin to try to describe it. But in the right-hand corner it has the notation D-212, and some handwritten notations on the page itself.

(Handing document to witness.)

BY MR. NAPPI:

Q Can you identify this record?

A This is a summary of the lots that had been released, and how much that was remaining as of the dates -- it looks like 11/1 of '84.

Q Actually there are dates later on.

A Oh, yes, for lots that were released.

Q Did you prepare this record?

A This is all my preparation, down to the lot 41 release date. That's someone else's.

Q Can you identify that handwriting?

A Yes. Because of the initial here, that's Barbara Carson's handwriting. Barbara was a loan

44

clerk at our bank at that time.

Q Do you recall -- the part of this record at least that you prepared, do you recall the purpose?

A Collateral analysis.

Q Was it prompted by any concern about the value of the collateral that you held at that time?

A No. This was normal.

Q What was the source of the valuation of \$1,100 an acre, if I'm reading this correct?

A Appraised value, consistent with the original appraisal that was filed.

Q You stated you're not sure you ever had any dealings with Jim McDougal directly, to the best of your recollection?

A To the best of my recollection, yes.

Q During the time you managed the loan, did the payments for the loan come from the escrows exclusively?

A Not exclusively. But as I recall, most of it came from escrow debt, yes.

Q To the extent it did not, can you describe

1 what the alternative sources of payment were?

2 A I really can't recall that.

3 Q Do you recall ever receiving any cash
4 payments for interest and principle?

5 A No.

6 Q Any payments that you had any reason to
7 believe were derived --

8 MR. PORTNOY: One second. When you say
9 you don't recall receiving cash payments, do you
10 positively recall that no cash payments were
11 received?

12 THE WITNESS: No. We did not receive any
13 cash payments, no.

14 BY MR. NAPPI:

15 Q Any payments that you had any reason to
16 believe were derived from proceeds of Madison
17 Guaranty Savings and Loan?

18 A I'd never heard of Madison Guaranty
19 Savings and Loan.

20 Q Other than checks that may have been cut
21 on someone's account that happened to be at Madison
22 Guaranty?

1 A No. The answer to your question is no.

2 Q If we could return for a moment to the
3 transaction involving Chris Wade, the airplane for
4 land swap, if you will.

5 You say you had discussions with Mr. Wade
6 regarding the bank's financing of the property, and
7 maybe changing the financing arrangement?

8 A Yes, I did.

9 Q Did you have any discussions with any of
10 the principals of Whitewater Development Corporation?

11 A No, I did not.

12 Q At that point in time, did you have a
13 sense that Whitewater was an unprofitable venture?

14 A No.

15 Q Did there ever come a time when you
16 thought Whitewater was not a profitable business
17 enterprise, when you came to learn that Whitewater
18 was not a profitable enterprise?

19 A I really wasn't aware of whether it was or
20 whether it wasn't, because my repayment source was
21 the McDougals and Clintons. And I really at that
22 point wasn't that concerned. It was well secured.

1 Our payments were coming from the escrow contracts.
2 Our backup payment was the four guarantors. I wasn't
3 concerned.

4 Q Did you receive more payments directly
5 from the McDougals than the Clintons?

6 A I don't know that.

7 MR. BELMAN: I didn't want to interrupt.
8 When you asked that question, you characterized it as
9 the airplane for land deal. I think the testimony
10 was that it was airplane and some cash.

11 MR. NAPPI: And some cash, you're right.

12 BY MR. NAPPI:

13 Q I'd like to show you a record -- it's
14 handwritten notes on stationery -- that says Hillary
15 Rodham Clinton. It's Bates stamped number DKS
16 029262.

17 (Handing document to witness.)

18 BY MR. NAPPI:

19 Q Do you recall ever having a conversation
20 with Hillary Rodham Clinton in which you conveyed the
21 information memorialized on this note?

22 A I can't recall.

1 Q Did anyone ever approach you and say Mrs.
2 Clinton is interested in some information on the
3 Whitewater loan?

4 A No. Most of the time, Mrs. Clinton dealt
5 with Mr. Strange, I would say. So I can't recall any
6 conversation I've had with her.

7 (Pause.)

8 Q Before we move on, if we can just refocus.
9 We've been dealing exclusively with the mortgage loan
10 on the Whitewater property.

11 Were you aware of the source of the down
12 payment for that loan?

13 A No. Besides what I've heard on the news
14 and in the newspapers, not directly from the bank. I
15 was not aware at that time that they had borrowed
16 that money.

17 MR. PORTNOY: Do you know for a fact now
18 that they borrowed that money?

19 THE WITNESS: No.

20 MR. PORTNOY: So you have no firsthand
21 knowledge whatsoever?

22 THE WITNESS: No.

1 BY MR. NAPPI:

2 Q At the time the loan was outstanding,
3 particularly in your earlier years, before you got
4 down to the point where you wanted the loan to be,
5 would that have been a source of concern for you,
6 that it was in essence 100 percent leveraged deal?

7 A Then, no. Now, yes. By the underwriting
8 standards of today, I would have been concerned. At
9 that time I would not have been because of the escrow
10 payments and the cosigners on the loan, or the
11 guarantors on the loan.

12 Q Were you the loan officer on the \$20,000
13 loan? I guess it was still Citizens Bank.

14 A No. Bob Ritter, the president at that
15 time, handled that loan. I handled the renewal of
16 it, or the escrow to pay it off. But Bob Ritter
17 handled the origination of that loan.

18 Q Was that a common practice at the bank, to
19 provide additional credit to pay down overdue
20 interest?

21 A At that time, I really can't say because I
22 wasn't in charge of the loan department at that time.

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1 Now it would not be.

2 Q When you came to be in charge of the loan
3 department, did you make loans like that?

4 A No.

5 Q So you did not feel it was a proper --

6 A Well, I wasn't there to know all the
7 circumstances, so I really can't say.

8 Q I'm not asking you to guess why Mr. Ritter
9 did it earlier. I'm just asking for your
10 professional opinion as a banker.

11 MR. PORTNOY: I believe Mr. Proctor has
12 testified that he has no knowledge of the
13 circumstance. And in the absence of the full
14 picture, I think he's reluctant to speculate.

15 MR. BELMAN: I'm just unclear as to what
16 you're asking him. I think it would be helpful if
17 there's some rule or regulation that prohibits this,
18 and that's what I thought you were asking. And
19 that's what I thought you were testifying about.
20 That's one thing.

21 But if it's a question of whether,
22 confronted with the same circumstances, he would have

1 made the loan --

2 MR. NAPPI: I'm not talking about the
3 circumstances.

4 MR. BELMAN: He doesn't know. So what is
5 the question?

6 MR. NAPPI: I think he's answered my
7 question.

8 MR. BELMAN: If he's answered your
9 question, let's go on to the next question.

10 BY MR. NAPPI:

11 Q You have made an interest funding loan on
12 a loan outstanding to your bank.

13 A Oh, I would say yes, I have. There are
14 times when you will make a loan like that, acquire
15 additional collateral, or refinance a small amount of
16 interest into another loan.

17 Q But you would seek collateral?

18 A Yes, if the collateral margin was not
19 strong. Of course, when you have a two-to-one
20 collateral margin, you might not. There are
21 occasions you would do that.

22 (Pause.)

1 Q The next record I'd like to show you is
2 marked D-149. It's entitled File Notes, Whitewater
3 Development, Inc. Loan 585. It's dated 1/6/87.

4 (Handing document to witness.)

5 (Pause.)

6 THE WITNESS: Okay.

7 BY MR. NAPPI:

8 Q Do you recall preparing this?

9 A Yes.

10 Q Could you explain the circumstances?

11 A It was a renewal of the loan. As is very
12 common, you make a collateral inspection at the
13 renewal origination of the loan, especially you know,
14 in a situation where you've got properties that are
15 being constructed on, as in this case.

16 Q Was this the first such collateral
17 inspection you'd done?

18 A It was the first one I had done.

19 Q On this piece of property?

20 A Right.

21 Q I'd like to direct your attention to the
22 second page, the last paragraph. You value the lots

1 at \$750 per acre. Initially the lots had been
2 valued, I believe, at \$1,100 an acre.

3 A I believe that's correct, yes.

4 Q What do you attribute the devaluation to?

5 A Primarily from what I've said on the front
6 because of the quality of homes and the lack of homes
7 that had been built there when it was clean, and a
8 new subdivision, I think \$1,100 was a fair price or
9 value.

10 After the mobile homes sprung up and a few
11 other things, it devalued the property.

12 Q What were the other things?

13 A Trash, just general refuse.

14 Q You value the contracts receivable at
15 \$60,000 and change. I'll be more precise -- \$60,786.
16 I would take it that's a fairly easy evaluation to
17 make. You just compile what's on the various
18 contracts for deeds?

19 A Yes. Just take the outstanding balances.

20 Q And the remaining unsold property at
21 \$43,350?

22 A Yes.

1 Q Was that remaining unsold property the
2 property that had been transferred to Chris Wade?

3 A Partially, yes.

4 Q Do you recall whether Whitewater still
5 owned some unsold lots at that point in time, or is
6 that your recollection?

7 A I don't recall. I'm not sure.

8 Q Just so the record's clear, you're not
9 sure who actually owned the remaining unsold
10 property?

11 A No.

12 Now, I need to clarify that, too. The
13 reason for that is that we were not -- it did not
14 make any difference to me in this bank who owned it
15 because I had the mortgages on the lands.

16 Q You had the right to go in and foreclose
17 if need be?

18 A True.

19 Q The next record I'd like to show the
20 witness, again it's a one-page record. It's a copy
21 of notepaper that has printed on the top Hillary
22 Rodham Clinton. It's personalized notepaper, and it

1 contains handwritten notes. The Bates stamp number
2 is DKRT 00294.

3 (Handing document to witness.)

4 MR. BELMAN: I think just for the record,
5 you identified this as DKRT 00294. It's DKRT 700294.

6 BY MR. NAPPI:

7 Q Do you know a woman named Margaret
8 Davenport?

9 A Yes, I do.

10 Q How do you know Margaret?

11 A Margaret was executive vice president at
12 Twin City Bank up till a year or two ago.

13 Q Did you ever have any contact with
14 Margaret Davenport regarding the Whitewater loan?

15 A No.

16 Q Did anyone at First Ozark ever tell you
17 that they had had contact with Margaret Davenport
18 regarding the Whitewater loan?

19 A No. It was my understanding that someone
20 was going to speak with Margaret to help convey some
21 information to Mrs. Clinton concerning the renewal of
22 the loan.

1 Q Who was that person?

2 A That would have been Ed Penick, who was
3 chairman of our board at that time.

4 Q How did you come to know this?

5 A This was discussed in a board meeting.

6 Q Do you recall the date of the board
7 meeting?

8 A No. You saw how poorly I did on dates
9 earlier. So I'm not going to try that.

10 Q Can you explain the circumstances around
11 Mr. Penick's inquiry?

12 A We were having some difficulty getting
13 financial statements, as we had often had with this
14 loan. And we had asked -- we had discussed that that
15 was one of our deficiencies -- not the only
16 deficiency we had. But we were talking about
17 deficiencies, the sensitive nature of the deficiency
18 because of Mr. Clinton being the governor.

19 And Mr. Penick says, "Well, gosh.
20 Margaret and Hillary are personal acquaintances. Let
21 me ask and see if she can help you get the financial
22 statement."

1 That's I'm sure what this resulted in.

2 Q Was this at a directors meeting?

3 A It was like when we talked off the record.

4 It was off the record conversation. It was not made
5 a part of the minutes of the board meeting.

6 Q It was not official business at the
7 directors meeting?

8 A No.

9 Q So how did it come up? Who initiated the
10 discussion regarding Whitewater?

11 A I can't recall. We were most likely
12 talking about an audit that someone had done, whether
13 it be the OCC or the FDIC or our internal audit
14 people. "Well, how did that go?" "Well" -- and we
15 summarized it. It probably came up that way. But
16 that's just guessing; that's 10 years ago, or
17 whatever.

18 Q Did someone convey information to Mr.
19 Penick?

20 A Mr. Penick had been on the board for many
21 years, so he was aware of the loan, sure.

22 Q Did Mr. Penick take a special interest in

1 this loan?

2 A Not anymore -- well, what do you mean by
3 special interest?

4 Q Fair question. Did Mr. Penick ever made
5 inquiries to you regarding this loan, other than the
6 discussion you've just described?

7 A No.

8 Q Do you know if he ever made inquiries to
9 anyone else at First Ozark?

10 A Not that I'm aware of.

11 Q During this off-the-record discussion at
12 the directors meeting, was there any discussion of
13 pending banking legislation?

14 A No.

15 Q Do you recall this discussion taking place
16 at the time when -- let me back up.

17 Do you recall a time when the Arkansas
18 legislature was considering inter-county banking
19 legislation, Pulaski County?

20 A Yes.

21 Q Can you recall that?

22 MR. PORTNOY: I'm sorry to keep

1 interrupting. But once again, Mr. Nappi asked you if
2 you recalled something and you said no. I just want
3 to be clear if your testimony is that you do not
4 recall whether bank legislation was discussed at this
5 meeting, or you positively recall that it was not
6 discussed?

7 THE WITNESS: It was not discussed.

8 MR. PORTNOY: Thank you.

9 BY MR. NAPPI:

10 Q Getting back to the Pulaski County
11 branching bill, can you place this conversation in
12 time, this conversation with Mr. Penick in time at
13 the same time as the legislature was considering this
14 legislation?

15 A I saw no connection at all.

16 Q So you can't say, yes, that was at the
17 same time?

18 A No. It was not at the same time, or there
19 was not any discussion, either one.

20 Q Is there anything that might refresh your
21 recollection?

22 A I'm not aware of anything.

1 MR. BELMAN: If you've got something that
2 refreshes his recollection, give it to him. Don't
3 ask him to speculate on whether there's anything out
4 there.

5 MR. NAPPI: Let's go off the record.

6 (Discussion off the record.)

7 MR. BELMAN: You can ask Mr. Proctor to
8 confirm this. But I think you've already gotten
9 every document they have in the files.

10 THE WITNESS: You have everything that we
11 have, yes.

12 (Discussion off the record.)

13 BY MR. NAPPI:

14 Q The next record I'd ask you to direct your
15 attention to is January 8, 1987 minutes of the
16 officers loan committee meeting of the First Ozark
17 Bank.

18 (Handing document to witness.)

19 THE WITNESS: Okay.

20 BY MR. NAPPI:

21 Q Have you seen this document?

22 A Yes.

1 Q Do you recall the proceedings of this
2 meeting?

3 A Yes. I presented the meeting at this
4 officers loan committee.

5 Q Do you recall the discussion about this
6 loan at this meeting? In particular -- that's a bad
7 question.

8 The property is valued at the \$750 an acre
9 average that you had valued it at. I assume during
10 your January visit to the property, did anyone
11 express concern about the depreciation, the value,
12 the collateral?

13 A No, since we had enough escrow funds to
14 make up the shortfall.

15 Q Do you recall anyone expressing any
16 concerns at this meeting regarding the loan?

17 A No. At this point it was paid down to a
18 low enough amount where, you know, it really was not
19 a big concern at all. The risk rating was three,
20 which means it's a normal rated loan. It's a normal
21 risk. It's just presented to get a stamp of approval
22 and approve it. It's a done deal.

1 Q Take a look at this. This is the
2 commercial loan application dated January 8, 1987.
3 Is it the loan extension that we're discussing at
4 this meeting?

5 A This is what we're discussing here.

6 Q Again, under the comments, there is a
7 requirement that all financials be in the file before
8 renewal.

9 A Yes.

10 Q What is the notation behind that?

11 A Okay. RAB.

12 Q Who's RAB?

13 A That's me, RAP.

14 Q Do you recall at this point of time, in
15 the beginning of 1987, a remaining concern about the
16 provision of the financial statement?

17 A We were trying to clear up deficiencies on
18 many of our loan files at that time. So we were
19 making pretty much that conditional on all loan
20 renewals.

21 Q Did you ever renew a Whitewater loan
22 without receiving financial statements?

1 A Yes.

2 Q Was that prior to 1987?

3 A Prior to 1987 and after 1987.

4 Q Did you ever renew a loan without being
5 able to obtain a financial statement from the
6 Clintons?

7 A Yes.

8 Q Do you recall the circumstances?

9 A No, not individual circumstances, no. But
10 it was not uncommon, as the records show, that there
11 not be financial statements for long periods of
12 times.

13 Q At this point in time, do you recall why
14 you felt your conditioning the renewal of the loan on
15 this piece of paper?

16 A I recall very well that the reason why we
17 wanted the financials on this loan, as well as any
18 other loan, is that we were making a strong effort.
19 We had just become a national bank just a short
20 period ago. And we were trying to clean up and
21 spruce up our bank to get good ratings.

22 Our goal was to have a camel-one rating

64

1 with the OCC. And that was part of it. They charged
2 us with cleaning up our documentation deficiencies,
3 and that was something that we were very strong on,
4 is financial statements.

5 Q So the OCC had charged you with cleaning
6 up your credit files?

7 A Oh, sure.

8 Q When did that occur?

9 A They examined us about every 18 months,
10 and that was always something that they encouraged us
11 to do, was to improve our collection of financial
12 statements.

13 MR. BELMAN: For the sake of
14 clarification, when you say charged, you don't mean
15 they charged you with some violation of the law.

16 THE WITNESS: No. They put in their
17 records that that would be something we could improve
18 on.

19 BY MR. NAPPI:

20 Q Do you recall the OCC reviewing your
21 records around this time, beginning in 1987?

22 A I do not recall when they reviewed, no.

1 Q Do you recall any examiner flagging the
2 Whitewater loan file as being poorly documented?

3 A The Whitewater loan was pulled every time
4 an examiner came in because of the fact -- two
5 things. It had the governor on it, and the fact that
6 it had been a large loan in previous years.
7 Examiners carried those loan files over and kept
8 looking at it.

9 But there was not any more documentation
10 reviewed on this loan than any other loan we had at
11 the bank.

12 Q Was there greater criticism?

13 A More scrutiny, maybe, not more criticism.

14 Q What do you mean? What's the distinction?

15 A More scrutiny means that they looked at it
16 with a magnifying glass because of who the loan was
17 to.

18 (Discussion off the record.)

19 BY MR. NAPPI:

20 Q Was this an unusually large loan for the
21 bank?

22 A No. It was a loan -- no. I have no other

1 response, no.

2 Q I mean at the point -- well, that's not a
3 fair question because the value of the loan decreased
4 over time.

5 Prior, when you took over management of
6 this loan, was it one of the larger loans in the
7 portfolio?

8 A Yes.

9 Q Was it the largest loan?

10 A I don't recall.

11 Q Was it the largest commercial real estate
12 loan?

13 A No. I don't know that.

14 MR. BELMAN: Just for clarification again,
15 you asked him, when he took over the
16 responsibilities, was this the largest loan in your
17 portfolio? Do you mean the whole bank's portfolio or
18 the portfolio he was accountable for himself?

19 MR. NAPPI: The entire bank's portfolio.

20 THE WITNESS: The answer to that is still,
21 I don't know.

22 MR. PORTNOY: So your testimony was that

1 it was one of the larger loans that you personally
2 were handling as a junior loan officer?

3 THE WITNESS: Correct.

4 BY MR. NAPPI:

5 Q Was it one of the larger loans that the
6 bank had outstanding at that time?

7 A One of the larger ones, yes.

8 Q The next record I'd like to show you are
9 the meeting minutes from December 7th, 1987, the
10 directors loan committee minutes.

11 (Handing document to witness.)

12 BY MR. NAPPI:

13 Q Again there are concerns expressed about
14 the document deficiencies in the Whitewater file.
15 Specifically, there's a waiver on the financial
16 statement from the McDougals. Do you recall this?

17 A Yes.

18 Q Why were the financial statements on the
19 McDougals waived?

20 A When a loan gets to the point that it's
21 performed, reduced, the collateral margin is good,
22 you have a source of repayment to repay the loan

1 regardless of what the financial standing of the
2 guarantors are. A CD-secured loan, a loan secured by
3 an assignment of cash money that comes in every
4 month -- you sometimes waive that requirement.

5 Q Why didn't you waive them for the
6 Clintons?

7 A I don't recall. We did later on. I don't
8 know why we didn't in this particular meeting. I
9 don't recall.

10 Q Did there come a time when you became
11 aware that the McDougals were having financial
12 difficulties?

13 A I can't recall the timing of it, whether
14 it was before or after the loan, or it had anything
15 to do with the loan. But I did hear about it.

16 Q Do you recall a time when it became
17 apparent to you that the Clintons would be the
18 primary source of guaranty for payment on this loan?

19 A I would answer that by saying that there
20 was a time that I realized that the Clintons that we
21 were going to deal with about the loan because the
22 McDougals, we were unable to locate either of the

1 McDougals.

2 MR. NAPPI: Let's go off the record for a
3 minute.

4 (Discussion off the record.)

5 BY MR. NAPPI:

6 Q I'd like the witness to review this next
7 record. It is a copy of a phone message slip dated
8 4/27.

9 MR. BELMAN: No year?

10 MR. NAPPI: Actually there is not.

11 (Handing document to witness.)

12 THE WITNESS: Okay.

13 BY MR. NAPPI:

14 Q Do you recall making this telephone call?

15 MR. BELMAN: Maybe we could identify the
16 document first. Do you know what this is?

17 THE WITNESS: Not really. I mean, it's
18 got my name on it. It looks like it's got a phone
19 message to call me back. It's got HRC so I imagine
20 that's Hillary Rodham Clinton.

21 Now, I remember talking to Mrs. Clinton.

22 But I don't remember in particular making this phone

70

1 call.

2 BY MR. NAPPI:

3 Q Nor requesting a guaranty?

4 A To sign a guaranty agreement, probably. I
5 can't recall.

6 MR. PORTNOY: Can we just state for the
7 record, based on my cursory review of this phone
8 message, it doesn't have a year on it?

9 MR. NAPPI: I think that had been made
10 clear and well stated.

11 MR. PORTNOY: I didn't realize you made it
12 clear. And I take it that Mr. Proctor doesn't have
13 any specific recollection of this, so he can't help
14 us place it in time except that he's testified that
15 he doesn't recall speaking with Mrs. Clinton before
16 1990.

17 THE WITNESS: Right.

18 BY MR. NAPPI:

19 Q Do you recall when you first required a
20 guaranty from the Clintons and McDougals?

21 A Yes. It's either cosigned or guaranteed
22 all the way through. Originally the loan was just

1 the individuals. Then they formed Whitewater. Then
2 we had the corporation sign, and the guarantors sign.
3 That's not new.

4 Probably what I was asking for there --
5 I'm 99 percent sure on this -- is that I sent them
6 new documents to sign which include acknowledgements
7 of continuance of the guaranty, renewal notes, and I
8 probably just made that statement to her on the
9 phone. That's just all the message that she wrote
10 down, is just the guaranty forms.

11 Q Do you recall an instance where you had
12 trouble getting the guaranty signed?

13 A No. I recall some times when I had
14 difficulty getting documents signed by all four
15 people because of them being out of town.

16 MR. BELMAN: Who's the them?

17 THE WITNESS: Them being the four signers,
18 the Clintons and the McDougals.

19 (Pause.)

20 BY MR. NAPPI:

21 Q The next record I'd like you to look at is
22 a letter on the stationery of John Wesley Hall, Jr.,

1 Attorney at Law. The letter is actually signed by
2 Sam Heuer. It's to your attention, dated July 3rd,
3 1990.

4 (Handing document to witness.)

5 BY MR. NAPPI:

6 Q Do you recall ever talking with Mr. Heuer?

7 A I don't recall talking to him, no.

8 Q Do you recall receiving this letter?

9 A Yes. I remember the letter.

10 Q Do you recall the circumstances under
11 which you received this letter, other than the
12 obvious?

13 A It came in the mail -- no, I don't.

14 Q Did you answer, no you don't recall the
15 specific circumstances?

16 A No. I mean, I don't know the
17 circumstances, anything about the letter, except that
18 I received it.

19 Q Did you provide them with the requested
20 information?

21 A No, not that I recall.

22 Q Why didn't you?

1 A It wasn't any of his business. I didn't
2 have any authorization from any of those people to
3 give that information.

4 If I remember right, I filed that in the
5 file and conveniently ignored it.

6 Q The next record I'd like you to look at is
7 entitled File Notes. It's dated November 16, 1980,
8 written by the witness.

9 (Handing document to witness.)

10 THE WITNESS: Yes.

11 BY MR. NAPPI:

12 Q Do you recall preparing this?

13 A Yes, I do.

14 Q Do you recall why you prepared this?

15 A Yes. And the reason why is that I wanted
16 to explain the reason for an extension of the loan.
17 And it's stated there in that last paragraph why I
18 extended it.

19 Q Do you recall why Wade needed to defer
20 making payments?

21 A He told me that his cash flow was
22 suffering, and he needed the deferment in payments.

1 Q Do you recall the time that Chris Wade
2 finally paid down the remainder of the Whitewater
3 loan?

4 A I remember the loan paid off. I don't
5 know -- I still don't know to this day who paid it
6 off, or where the funds came from.

7 Q Do you recall having any discussions with
8 Chris Wade about the need to retire this loan, or
9 attempts to retire this loan?

10 A At this time that we talked about these
11 deferments, yes.

12 Q What did Wade have to say?

13 A He said that he could make arrangements to
14 get it paid off, or resume those payments after the
15 five months had lapsed. I believe it's five months.
16 It looks like it is.

17 Q Did he tell you what kind of arrangements
18 he could make to get it paid off?

19 A No.

20 Q The next record I'd like to direct your
21 attention to is entitled Time Sheet. It's dated 7-
22 30. It does not have a year on it. The timekeeper's

1 name is Sue Cathy Jones. It's a partially redacted
2 document, except for one item, which is Harvest
3 Foods.

4 A I see it. I don't know anything about
5 that. This is the first time I've seen it.

6 Q Do you know William Kennedy?

7 MR. BELMAN: Is he B. Kennedy?

8 THE WITNESS: I must, but I can't recall
9 who he is.

10 BY MR. NAPPI:

11 Q Have you ever heard of Harvest Foods?

12 A Yes.

13 MR. BELMAN: You said you must know B.
14 Kennedy. This is the record of a telephone
15 conference with you and an office conference with
16 him. Is there any reason --

17 THE WITNESS: I misunderstood that then.
18 I thought it was a conference with myself and him.
19 So maybe I don't.

20 BY MR. NAPPI:

21 Q Did you ever have any discussions with
22 Hillary Rodham Clinton about Harvest Foods?

1 A No.

2 Q How do you know of Harvest Foods?

3 A Advertisements.

4 Q So you've never had any professional
5 involvement?

6 A No.

7 MR. BELMAN: Is there a number on that?

8 MR. PORTNOY: I believe it's RTC 085165.

9 The other markings indicate that it was produced by
10 the RTC to the House Banking Committee, although it
11 doesn't have a House Bates stamp on it, which
12 suggests that it was not made a part of the House
13 records, and publicly released.

14 MR. NAPPI: I'm sure we have it in our
15 records if it's an RTC document.

16 BY MR. NAPPI:

17 Q Do you know Terry Renaud?

18 A Yes.

19 Q How do you know him?

20 A He's our bank attorney, our legal counsel,
21 "our" being Mercantile Bank of North Central
22 Arkansas.

1 Q Do you know a Terry Renaud who at one time
2 worked for TC Bankshares?

3 A Yes.

4 Q Is it the same person?

5 A I'm sorry. I thought you said Terry
6 Poynter. Terry Renaud, yes. I got the names
7 confused; it's getting late.

8 Terry Renaud was the CEO, chairman of the
9 board of Twin City Bank.

10 Q Did you ever have any discussions with him
11 regarding the Whitewater loan?

12 A Not that I recall, no.

13 Q Do you know Susan Sisk?

14 A Yes.

15 Q Other than reviewing the loans at the
16 officers loan committee, did you ever have any
17 conversations with her regarding the Whitewater loan?

18 A Not that I recall. In fact, I can't even
19 recall talking with her at all. She would not have
20 reviewed that loan because it was not under her
21 authority level. That would have to go to her. I
22 would say no.

1 MR. NAPPI: I don't have any further
2 questions.

3 (Recess.)

4 EXAMINATION

5 BY MR. PORTNOY:

6 Q Good evening, Mr. Proctor.

7 A Hello.

8 Q At the very beginning of your testimony,
9 you indicated that you began handling larger
10 commercial loans in about 1984?

11 A Approximately, yes.

12 Q The Whitewater loan was in your portfolio
13 from the time that you became a loan officer?

14 A No, from the time that Mr. Ritter left.

15 Q That was when?

16 A Gosh, it seems like about 1984.

17 Q The Whitewater loan, which I guess was
18 actually a series of loans that renewed, tended to
19 have short maturities of a year or two years?

20 A Yes.

21 Q Was that common practice?

22 A Yes, because of the state's usury law in

1 Arkansas. You cannot put a loan on a long-term basis
2 with an adjustable rate. So you would balloon those.
3 At each balloon you had a chance to reprice it at the
4 current interest rate. So it was common.

5 Q It just wasn't a structure that was in any
6 way unique to the Whitewater loan, was it, sir?

7 A No.

8 Q Was it common for balloon rates, balloon
9 loans not to be repaid when they became due?

10 A Very common. Ninety percent, I would say,
11 were not paid.

12 Q And those loans were normally renewed by
13 the bank?

14 A Yes.

15 MR. NAPPI: May I ask a question? What
16 would be the normal term of repayment, the normal
17 period in which these loans would be renewed?

18 THE WITNESS: Depending upon the
19 collateral, but I would say probably an average of 10
20 to 15 years on real estate secured loans.

21 BY MR. PORTNOY:

22 Q And you indicated that loans were normally

1 renewed?

2 A Yes.

3 Q Was it your expectation when you reviewed
4 a loan file of an existing loan that was maturing
5 that it would likely be renewed unless something had
6 changed?

7 A Yes.

8 Q So the normal practice was to look at the
9 loan with an eye toward renewing it. Would you say
10 that's fair?

11 A On a loan of this type, yes. And what I
12 mean by that is, some loans are made to be paid off
13 at the end of the term. Some are made to renew so
14 you can adjust the rate. This was one of those that
15 was made to renew so you could adjust the rate.

16 Q And in your view, the Whitewater loan was
17 adequately collateralized from the time you first
18 began handling it until the time it was paid off?

19 A Yes.

20 Q Certainly you were comfortable that there
21 were sufficient guarantees of repayment, including
22 collateral and guarantees of the individual

1 borrowers?

2 A Most definitely.

3 Q So you never had any doubt that the loans
4 were secure loans?

5 A I was never concerned about the loans from
6 the loss standpoint, no.

7 Q I believe you testified earlier, when the
8 loan was first made it would be considered a good
9 loan because the criteria that were most important at
10 that time were character and collateral?

11 A Yes.

12 MR. NAPPI: You did not make the loan.

13 THE WITNESS: No.

14 MR. NAPPI: So you really don't have a
15 basis for determining whether it would have been a
16 good loan at inception, for offering a judgment as to
17 whether it would be a good loan at inception.

18 THE WITNESS: He's correct.

19 BY MR. PORTNOY:

20 Q Let me ask it differently. At the time
21 you assumed management of the loan, supervision of
22 the loan, did you consider it to be a good loan?

1 A Yes.

2 Q Was that based on collateralization of the
3 loan in part?

4 A Based on collateralization. And at that
5 time, McDougal's financial standing and his net
6 worth, as well as the governor guaranteeing the loan
7 as well.

8 Q Was there ever a time that you considered
9 recommending that the bank not renew the loan?

10 A No.

11 Q Was there ever a time that the absence of
12 a financial statement caused you to consider not
13 renewing the loan?

14 A No.

15 Q Did you believe that you had sufficient
16 information about the borrowers, even in the absence
17 of financial statements?

18 A No. I would have liked to have had, as
19 any banker would, more information about the
20 borrower, with an updated financial statement. I'd
21 like every loan in our bank to have updated financial
22 statements.

1 Q But you were comfortable that the loan was
2 going to be repaid, irrespective of the absence of
3 the financial statement?

4 A I was -- I would not say comfortable. But
5 I was -- it was at that point, I would say, I'd like
6 to have the financial statement. Then I would have
7 been comfortable. Without the financial statement, I
8 wasn't worried about loss of the loan. But I wasn't
9 comfortable. It created work and a certain degree of
10 tension because of that.

11 Q You also testified that it was fairly
12 common at this time for financial statements to be
13 tardy?

14 A Yes, that's true.

15 Q Can you estimate what percentage of the
16 loans you supervised had this?

17 I'm asking the witness if he can estimate
18 the percentage of loans that he supervised.

19 MR. NAPPI: At what time period?

20 BY MR. PORTNOY:

21 Q At any time period that you feel
22 comfortable estimating about?

1 A I can tell you that I've been through
2 many, many examinations through the years. If you
3 can run a loan portfolio -- I'm talking about the
4 whole loan portfolio where there's not at least 20 to
5 25 percent of your loans with financial statement
6 deficiencies, you're not making any loans.

7 So I would say at this point that we're
8 looking between and average of 25 and 40 percent
9 deficiency rate on financial statements.

10 Q Sir, it has been reported that the
11 Whitewater loan was -- and I will quote -- "the only
12 loan in the bank's portfolio that had a financial
13 statement deficiency." Is that correct?

14 A That is the most ludicrous statement I've
15 ever read. No, it's not correct.

16 Q So anyone who made that statement would
17 either be mistaken or exaggerated?

18 A Or misquoted.

19 MR. NAPPI: It's not an either/or.

20 BY MR. PORTNOY:

21 Q The characterization of the loan as the
22 only one lacking financial statements has been

1 attributed to Vernon Dewey. Do you know Mr. Dewey?

2 A Yes.

3 Q Have you ever discussed with Mr. Dewey
4 that characterization?

5 A The characterization of what?

6 Q As the loan as being the only one lacking
7 financial statements?

8 A No, most definitely not, no.

9 MR. NAPPI: Mr. Dewey was a member of the
10 loan committee?

11 THE WITNESS: The officers loan committee,
12 for a period of time, yes.

13 MR. NAPPI: So he would have had an
14 opportunity to review the loan file?

15 THE WITNESS: Sure.

16 MR. NAPPI: He would not necessarily -- he
17 could have drawn whatever judgments he drew without
18 discussing them with you?

19 THE WITNESS: Sure.

20 MR. NAPPI: He could have had access to
21 the loan file?

22 MR. PORTNOY: We'll get to that, I promise

1 you.

2 BY MR. PORTNOY:

3 Q Just to summarize, sir, there was nothing
4 special in your mind about the difficulty of
5 obtaining financial statements for the Whitewater
6 loan? It may have been troubling, but it wasn't
7 unique?

8 A It was troublesome. And the only way it
9 was unique was the fact that all four of the
10 borrowers were away from our location. And that made
11 it more difficult to get because of letters and
12 correspondence. That's the only difference.

13 Q Mr. Proctor, I'd like to show you a
14 document previously identified as number 87, which
15 also bears the stamp numbers CBF 0379, and House
16 Whitewater Report 7878.

17 This is I believe your file notes from
18 January 6 of 1987.

19 (Handing document to witness.)

20 THE WITNESS: Okay.

21 BY MR. PORTNOY:

22 Q Mr. Nappi asked you about the valuation

1 you placed on the property.

2 A Okay.

3 Q I believe he indicated that you thought
4 the acreage should be valued at \$750 an acre?

5 A Yes.

6 Q And you indicated that that was below the
7 formal appraisal?

8 A Yes.

9 Q Did you commission any formal appraisal?

10 A No.

11 Q Are you an appraiser, sir?

12 A No.

13 Q So this was in essence your best guess as
14 to the value?

15 A Based on experience in the banking
16 business.

17 Q The actual value could have been higher?

18 A Oh, sure.

19 Q And a person could reasonably assume that
20 the value was higher, or could reasonably have
21 concluded that the value was higher?

22 A True.

1 Q This document apparently addresses only
2 some of the lots in Whitewater. And I believe it
3 states that it only addresses lots that are still
4 secure in the loan to the bank.

5 Do you know what happened to the other
6 lots? They no longer secure the loan to the bank.

7 A Because they were purchased, paid in cash
8 and paid for. And it was applied to the loan.

9 Q So the missing lots or the lots that
10 aren't discussed on the document have already been
11 conveyed, in essence, in fee simple to a purchaser?

12 A Anyone who wants to put a house on there,
13 you know, it's their lot.

14 Q So did you ever show this document to Mr.
15 and Mrs. Clinton, or anyone acting on their behalf?

16 A No.

17 Q Did you ever show it to the McDougals?

18 A No.

19 Q Did you ever discuss with the Clintons or
20 the McDougals or anyone acting on their behalf the
21 valuations that you attached to the lots?

22 A No.

1 Q So there's no reason to believe that the
2 Clintons or the McDougals knew what value you had
3 placed on the lots?

4 A No. They wouldn't know that.

5 Q So if they came to a different conclusion,
6 they wouldn't have any reason to know that their
7 conclusion differed from yours?

8 A True.

9 Q You also indicated that you attended a
10 board meeting where Mr. Penick stated he was going to
11 ask Margaret Davenport to speak with Mrs. Clinton?

12 A Yes.

13 Q That he was going to ask Mrs. Davenport to
14 ask Mrs. Clinton for financial statements?

15 A Yes.

16 Q Do you recall who else might have been
17 privy to that conversation?

18 A I can't recall the ones that were in
19 there. There were two or three. Wes, I believe, was
20 there. A couple of the board members were probably
21 there, but I can't recall which ones. It was after
22 the meeting, and we were all milling out and getting

90

1 ready to leave.

2 Q Do you recall if Mr. Dewey was at the
3 meeting?

4 A No, he was not. He did not attend board
5 meetings, unlike the book says.

6 Q Do you recall whether this was a regular
7 board meeting? This wasn't a special meeting of some
8 kind, was it, sir?

9 A No. It was a regular scheduled board
10 meeting.

11 Q Other loans besides the Whitewater loans
12 were discussed?

13 A No. There were not any loans discussed.
14 That was a board meeting. It was not a directors
15 loan committee meeting. They were different. We
16 don't normally discuss loans in that except for loans
17 to insiders and directors. We don't discuss regular
18 loans like these in that meeting.

19 Q The meeting wasn't called, to the best of
20 your knowledge, for discussing the Whitewater loan,
21 was it, sir?

22 A No. It was not called at all to discuss

1 Whitewater. We've never called a special board
2 meeting to discuss Whitewater, or in that case I can
3 think of, any loans.

4 Q To your knowledge, did anybody at this
5 meeting suggest calling the Whitewater loan, in light
6 of the lack of a financial statement?

7 A No. I don't think there was ever any
8 decision to call the loan.

9 Whenever you discuss a loan, you discuss
10 all the different alternatives. But I don't even
11 think calling the loan was discussed as an
12 alternative.

13 MR. NAPPI: Could I ask a quick question?
14 Did you ever discuss the possibility of calling the
15 loan with Susan McDougal?

16 THE WITNESS: I can't recall, but I don't
17 think so.

18 BY MR. PORTNOY:

19 Q Sir, did you ever discuss with Margaret
20 Davenport the prospect of her speaking with Mrs.
21 Clinton?

22 A No.

1 Q Did she ever tell you that she had spoken
2 with Mrs. Clinton?

3 A No.

4 Q Did anyone else ever tell you that
5 Margaret Davenport had spoken with Mrs. Clinton?

6 A Mr. Penick communicated with Mr. Strange
7 that she was delivering the financial statement. But
8 that's all I heard.

9 Q You don't know how that came about,
10 though?

11 A No.

12 Q Did you ever discuss, again with Mr.
13 Penick, the prospect of Mrs. Davenport speaking with
14 Mrs. Clinton?

15 A No.

16 Q So you don't know if Mr. Penick actually
17 spoke with Margaret Davenport?

18 A No.

19 Q And you don't know if Mrs. Davenport
20 actually spoke with Mrs. Clinton?

21 MR. BELMAN: I guess for the record you
22 ought to identify who "she" was. When the statement

1 was forthcoming, you said "She delivered the
2 statement." Do you mean Mrs. Davenport or Mrs.
3 Clinton?

4 THE WITNESS: Yes. Mrs. Davenport was
5 supposed to deliver the statement to Mrs. Clinton.

6 BY MR. PORTNOY:

7 Q You mean the blank form?

8 A The blank form, yes.

9 Q Do you know if that occurred, sir?

10 A Only from the result, the end result, that
11 we received a financial statement.

12 Q But you don't know how Mrs. Clinton got
13 the blank form?

14 A No.

15 Q And you don't know how the blank form came
16 to be returned to the bank?

17 A No.

18 (Handing document to witness.)

19 MR. NAPPI: Is this the financial
20 statement that was in question?

21 THE WITNESS: Yes.

22 MR. NAPPI: I'm sorry.

1 MR. PORTNOY: I'd like to make this clear.
2 Mr. Nappi has shown the witness a form financial
3 statement which lacks a Bates number. That is the
4 financial statement dated March 24, 1987.

5 And I believe that Mr. Proctor has
6 identified the form.

7 BY MR. PORTNOY:

8 Q I don't understand your testimony to be
9 that you understand that this particular document was
10 identified by Mrs. Davenport to Mrs. Clinton?

11 MR. BELMAN: I think the question was
12 whether this was the form that was filed by the
13 Clintons as their financial statement?

14 THE WITNESS: That's what I was answering.

15 BY MR. PORTNOY:

16 Q So you don't know how the blank form that
17 the Clintons filled out got to them, do you, sir?

18 A No.

19 Q You also testified about a January 8, 1987
20 officers loan committee meeting in which the
21 Whitewater loan received a risk rating of three.

22 A Yes.

1 Q You testified that that meant "a normal
2 loan"?

3 A Yes.

4 Q Was a three rating a common rating for a
5 loan?

6 A 80 percent of our loans in the bank at
7 that time, if not more, were three rated.

8 Q So a three rating didn't mean that default
9 was somehow imminent?

10 A Oh, no.

11 Q And there was nothing unusual about
12 approving a loan that was rated three?

13 A Not at all.

14 Q Sir, the statement has been made that the
15 loan committee gave the Whitewater loan a risk rating
16 of three, and I now quote: "meaning the bank should
17 start preparing for a default, but still hoped the
18 loan would perform." Is it accurate to say that the
19 bank started preparing for default on loans that were
20 rated three?

21 A Absolutely not, no.

22 Q I take it that it is accurate that the

96

1 bank expected loans rated three to perform?

2 A Yes.

3 Q You also testified, sir, that by the time
4 of this January 8, 1987 officers loan committee
5 meeting, you considered the Whitewater loan to be "a
6 done deal." Did you mean by that, sir, that you
7 expected the committee would approve your
8 recommendations for renewal?

9 A I didn't understand the first part of your
10 question.

11 Q During the questioning by Mr. Nappi, you
12 testified that by the time the loan committee meeting
13 was held to consider the Whitewater loan, you
14 considered the loan -- I believe your quote was "a
15 done deal."

16 A What time are we talking about? What
17 timeframe are we talking?

18 Q January 8, 1987, sir.

19 A '87.

20 Q I take it you mean by that you expected
21 the loan committee to approve the loan?

22 A Oh, yes.

1 Q And that you were prepared to recommend
2 approval of the loan?

3 A Yes.

4 Q And you expected the loan committee to go
5 along with your recommendation?

6 A Yes.

7 Q Did anybody pressure you to recommend that
8 the loan be approved?

9 A No.

10 Q Did anybody ever pressure you with respect
11 to the Whitewater loan, to approve a renewal?

12 A No.

13 Q So anytime you recommended approval, it
14 was entirely based upon your own analysis of the
15 fundamentals of the loan?

16 A Yes, it was.

17 Q No one ever urged you to give the loan
18 some kind of preferential treatment because one of
19 the borrowers, one of the four guarantors, was the
20 governor?

21 A No.

22 Q In 1984, when you recall taking over

1 supervision of the Whitewater loan, were you one of
2 the more junior loan officers at the bank?

3 A I will answer by saying I was a junior
4 loan officer, but I was not one of the more junior
5 loan officers at our bank because our turnover had
6 been high in the division up to that point.

7 Q Were there more senior loan officers at
8 the bank than you at the time?

9 A Not with the exception with the president.

10 Q When loans were assigned to you, did
11 anyone ever say to you that a particular loan -- by
12 this I don't mean necessarily the Whitewater loan --
13 was considered troubled or potentially a problematic
14 loan?

15 A No. As a senior lender, you get the
16 report, and you look at the OCC or the FDIC comments
17 on the loan. You get acquainted with them, you
18 review the files, and you form your own judgments on
19 it.

20 Q So nobody walked you through the files?

21 A No.

22 Q Mr. Nappi also asked you about a request

1 for a loan documentation waiver regarding the
2 financial statements of the McDougals. Do you recall
3 that, sir?

4 A Yes.

5 Q I believe you testified that loan
6 documentation waivers of this kind were not uncommon?

7 A That's correct.

8 Q There were similar waivers granted for
9 other loans?

10 A Yes.

11 Q Did you consider this request for a waiver
12 to be some kind of special treatment for the
13 Whitewater loan?

14 A No. If it hadn't have been -- I think it
15 almost went backwards on this one. We were more
16 cautious to waive this one than we would have most
17 others.

18 Q So if anything, you held the Whitewater
19 loan to higher standards?

20 A We felt like we needed to because it was
21 scrutinized and reviewed more than most loans of that
22 amount.

100

1 Q So if the guarantors had been four
2 anonymous individuals as opposed to the McDougals and
3 the Clintons, in your estimation, the same request
4 for a waiver would have been made?

5 A Sure.

6 Q And the waiver would have been granted?

7 A Based upon it being this similar net
8 worth.

9 MR. NAPPI: You're asking a hypothetical.

10 MR. PORTNOY: Yes. Based on the same
11 financial situation.

12 THE WITNESS: Taking the politics or the
13 people out of it, and with the same financial
14 statements and net worth, sure. That would be an
15 easy call to make.

16 BY MR. PORTNOY:

17 Q And the waiver was justified by the
18 fundamentals of the loan?

19 A Sure.

20 Q Did you ever turn over control or
21 supervision of the Whitewater loan to Mr. Dewey?

22 A No.

1 Q To your knowledge, did he ever state that
2 he was supervising or controlling the Whitewater
3 loan?

4 A No, not to my knowledge. And I'm pretty
5 sure, no.

6 Q To your knowledge, did Mr. Dewey ever
7 correspond with the Clintons regarding the Whitewater
8 loan?

9 A Not to my knowledge.

10 Q Did he ever show you correspondence that
11 he had prepared to the Clintons, or asked you to
12 review such correspondence?

13 A Not that I can recall; I don't think so.

14 Q Can you envision a circumstance under
15 which Mr. Dewey would have corresponded to the
16 Clintons about the Whitewater loan without bringing
17 that to your attention?

18 A I would not think so, no. He would not
19 under normal circumstances. I mean, he could have,
20 but I don't see why he would have.

21 MR. NAPPI: You're having trouble
22 envisioning, right?

1 (Laughter.)

2 THE WITNESS: Yes, right.

3 BY MR. PORTNOY:

4 Q If he had corresponded with the Clintons
5 about the Whitewater loan without advising you, would
6 you have considered that an improper thing to do?

7 A Yes.

8 Q Did Mr. Dewey ever express to you the view
9 that the Clinton loan should be called?

10 A No.

11 Q Did anyone ever express to you the view
12 that the Whitewater loan should be called?

13 A No.

14 MR. NAPPI: Are you certain no? Are you
15 saying, "No, I don't recall"?

16 THE WITNESS: I'm saying, no, not that I
17 can recall. I do not recall anyone ever saying that.

18 MR. NAPPI: Including Dewey?

19 THE WITNESS: Including Dewey.

20 (Pause.)

21 BY MR. PORTNOY:

22 Q Mr. Nappi asked you whether you recall

1 legislation to allow branch banking in other parts of
2 the county. Do you remember that?

3 A Yes.

4 MR. NAPPI: I asked about Pulaski County.

5 THE WITNESS: Yes, Pulaski.

6 BY MR. PORTNOY:

7 Q Do you recall whether the management of
8 Twin City's Bankshares or Twin City's Bank ever took
9 a position with respect to that legislation?

10 A Yes, I recall they were very much in favor
11 of the legislation, just as we were in our bank
12 because of being able to branch into contiguous
13 counties in our area, too.

14 MR. NAPPI: There's a clarification. I
15 think you're thinking about the 1988 general
16 branching bill.

17 THE WITNESS: That's correct. The one
18 before only pertained to Pulaski County. Thanks for
19 correcting me.

20 BY MR. PORTNOY:

21 Q Do you remember whether TCB took a
22 position with respect to the 1987 bill?

1 A Oh, yes. They were very pro branching at
2 that point.

3 Q So the company favored both bills, to your
4 recollection?

5 A Yes.

6 Q Did anyone affiliated with TCB ever
7 suggest to you that the bank had some kind of special
8 influence with Governor Clinton based on the
9 Whitewater loan?

10 A Absolutely not.

11 Q Did anyone ever suggest to you that you
12 should take any action with respect to the Whitewater
13 loan in order to curry influence with Governor
14 Clinton?

15 A No.

16 Q Did anyone ever suggest to you that you
17 should forebear from any action with respect to the
18 Whitewater loan in order to influence Governor
19 Clinton?

20 A No.

21 MR. NAPPI: Are you saying any action,
22 like take no action, or with respect to any specific

1 action?

2 MR. BELMAN: He thought he asked that
3 question in every way possible.

4 MR. PORTNOY: I thought I did, too. That
5 was my intent.

6 BY MR. PORTNOY:

7 Q To your knowledge, sir, did anyone ever
8 suggest any connection whatsoever between the bank's
9 treatment of the Whitewater loan and Mr. Clinton's
10 handling of the branch banking legislation?

11 A I see no connection at all between the
12 two.

13 MR. NAPPI: Can I ask a couple of
14 questions before you move on from this?

15 MR. PORTNOY: I may not move on from this.
16 (Pause.)

17 MR. PORTNOY: I believe, sir, that those
18 are all my questions. Mr. Nappi has indicated that
19 he may have a few questions.

20 FURTHER EXAMINATION

21 BY MR. NAPPI:

22 Q If you would just focus on the Pulaski

1 County branching bill for one moment, the 1987 bill,
2 how did you become aware that Twin City Bank was very
3 much in favor of that legislation?

4 A Newspapers, conversations with employees
5 of the bank, their desire for years to want to branch
6 into Little Rock.

7 Q Did Mr. Penick ever express his enthusiasm
8 about the legislation?

9 A Oh, sure. Mr. Penick was very much a
10 proponent of that.

11 Q What about Mr. Renaud?

12 A Also, he was enthusiastic about it, sure.

13 Q Prior to that, had you ever discussed any
14 legislation pending before the Arkansas legislature
15 with Mr. Renaud or Mr. Penick?

16 A Most definitely. They would discuss in
17 our board meetings all the current legislation that
18 was going on and how it would affect our bank and
19 their bank. That was probably discussed almost every
20 board meeting.

21 Q Did they seem particularly enthusiastic
22 about this legislation, the 1987 act?

1 A Yes. They were excited about it, if it
2 passed. They were hoping it would.

3 Q If I could just ask one more question,
4 again.

5 MR. PORTNOY: That's fine. I was going to
6 follow up on this, but go ahead.

7 BY MR. NAPPI:

8 Q Turning to the personal financial
9 statement that your counsel was kind enough to
10 provide for us today, the March 24, 1987 financial
11 statement of the Clintons. Just stepping back to
12 your previous testimony, when I rudely interjected --
13 and I apologize for that -- was this the financial
14 statement you were seeking to obtain through Margaret
15 Davenport? By that I mean the information conveyed
16 through this statement, was this --

17 MR. PORTNOY: I don't believe Mr. Proctor
18 testified that he was seeking to obtain anything from
19 Mrs. Davenport.

20 MR. NAPPI: You're right. I'm sorry. I
21 mischaracterized.

22 BY MR. NAPPI:

1 Q But you testified as to Mr. Penick stating
2 that perhaps Margaret Davenport could help obtain the
3 necessary information. Was it in connection with
4 this particular financial statement?

5 A We were attempting to get a schedule of
6 assets, liabilities, net worth of the Clintons. And
7 this fulfilled that requirement.

8 Q This particular -- by this one, I mean --

9 A This document fulfilled that requirement.

10 Q Okay.

11 FURTHER EXAMINATION

12 BY MR. PORTNOY:

13 Q Sir, during your efforts to obtain
14 financial statements from the Clintons, did you ever
15 come to believe that the Clintons were trying to hide
16 something?

17 MR. NAPPI: Trying to hide what? Bad
18 penmanship?

19 MR. PORTNOY: That's precisely the point.

20 BY MR. PORTNOY:

21 Q Much has been made of the fact that these
22 financial statements were sometimes tardy. Did the

1 fact that the financial statements were sometimes
2 tardy or difficult to obtain ever suggest to you, or
3 do you have any basis to believe, that the Clintons
4 were trying to deny the bank the information?

5 A No, not at all. Not then, and not now. I
6 have numerous customers that are good, solid, and
7 have a very nice financial statement in terms of net
8 worth and income that just would rather take a
9 beating than fill out a financial statement. It's
10 not unusual.

11 MR. PORTNOY: Thank you, sir.

12 MR. NAPPI: I have no further questions.

13 (Whereupon, at 8:10 p.m., the
14 deposition of RON A. PROCTOR was concluded.)

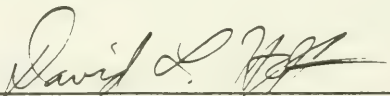
15 I have read the foregoing pages, which
16 reflect a correct transcript of the answers given by
17 me to the questions therein recorded.

18
19 -----
20 RON A. PROCTOR
21
22

CERTIFICATE OF NOTARY PUBLIC & REPORTER

110

I, DAVID L. HOFFMAN, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires JUNE 30, 2000

**DEPOSITION OF J. WESLEY STRANGE
IN RE: S. RES. 120**

THURSDAY, MAY 2, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Deposition of J. WESLEY STRANGE, called for examination pursuant to notice of deposition, at 12:20 p.m. in Room 534 of the Dirksen Senate Office Building, before DAVID L. HOFFMAN, a Notary Public within and for the District of Columbia, when were present:

DOUGLAS R. NAPPI, Esq.
Majority Counsel
JAMES S. PORTNOY, Esq.
Minority Associate Special Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

MURRAY J. BELMAN, Esq.
Thompson & Mitchell
700 Fourteenth Street, NW
Suite 900
Washington, DC 20005
On behalf of the Deponent.

CONTENTS

WITNESS

EXAMINATION

J. Wesley Strange	
by Mr. Nappi	5
by Mr. Portnoy	88

PROCEEDINGS

(12:20 p.m.)

MR. NAPPI: Let's go on the record.

This deposition is being conducted pursuant to S. Res. 120. This Resolution establishes a Special Committee administrated by the Banking Committee to conduct investigation involving Whitewater Development Corporation and other related matters.

Section 1(b) of Senate Resolution authorizes investigation and public hearings into, amongst other things, the activities, investments, and tax liability of Whitewater Development Corporation and is related to Whitewater Development Corporation and its officers, directors, and shareholders.

This deposition is in advance of public hearings. It is likely you will be called to testify. We will ask you a series of questions. You will testify under oath.

If you don't understand a question, let me know and I will rephrase. If you need a break,

4

please let me know.

The stenographer will prepare a record of questions and answers. The deposition will be treated as Committee confidential until the commencement of the hearings. Prior to the hearing, you will receive a letter from the Committee telling you that you may come to the Senate to review the transcript of your deposition and make note of any corrections for transcription on an errata sheet.

If you are called to testify at a public hearing, you will be permitted to have a copy of your deposition transcript before your testimony.

You may be represented by counsel. Objections to form of question will be noted for the record.

Counsel may object on grounds of privilege or relevance. The Committee Chairman may rule on objections where the witness refuses to answer a question.

Please swear the witness.

Whereupon,

J. WESLEY STRANGE

1 was called as a witness herein, and having been first
2 duly sworn, was examined and testified as follows:

3 EXAMINATION

4 BY MR. NAPPI:

5 Q Please state your name for the record.

6 A J. Wesley Strange.

7
8
9 Q Are you represented by counsel?

10 A Yes, I am.

11 MR. NAPPI: Could counsel please identify
12 himself for the record?

13 MR. BELMAN: I'm Murray Belman with
14 Thompson, Coburn here in Washington.

15 BY MR. NAPPI:

16 Q Mr. Strange, did you speak to anyone other
17 than counsel about your testimony prior to your
18 deposition?

19 A No.

20 Q Could you please state your present
21 business address?

22 A It's at 4th and Main Street, Flippin,

1 Arkansas.

2 Q You're employed by?

3 A Mercantile Bank of North Central Arkansas.

4 Q And your position at Mercantile?

5 A President, CEO.

6 Q How long have you held that position?

7 A Ten and a half years.

8 Q Before Mercantile Bank was known as
9 Mercantile Bank, what was it known as, sir?

10 A First Ozark National Bank.

11 Q When was it acquired by Mercantile Bank?

12 A May 1st of 1995.

13 Q When did you join First Ozark?

14 A January 1st of 1986.

15 Q Where were you employed before that?

16 A Centerre Bank in Branson, Missouri.

17 Q So you joined First Ozark at the beginning
18 of 1986 and you were employed as President and CEO at
19 that time?

20 A That's correct.

21 Q When you joined First Ozark, did you
22 become aware that there was a loan outstanding to

1 Whitewater Development Corporation?

2 A Shortly thereafter, as a review of the
3 loan portfolio, I'm sure that I did.

4 Q You don't recall the specifics of when you
5 first learned of it?

6 A Not specifically, no.

7 Q Do you recall who the loan officer was who
8 was responsible for that credit file at that time?

9 A A gentleman by the name of Ron Proctor.

10 Q What was his position?

11 A Loan officer and I believe vice president
12 was the title at that time.

13 Q So you first became aware of this loan as
14 a review of the credit files of the bank?

15 A Correct.

16 MR. PORTNOY: I'm sorry, you learned of
17 the loan or was that your assumption?

18 THE WITNESS: I learned of the loan as I
19 reviewed the credit files at that time, yes.

20 BY MR. NAPPI:

21 Q Did you discuss the loan with Mr. Proctor
22 at that time?

1 A I don't recall whether I did or not.

2 Q Do you know a gentleman named Vernon
3 Dewey?

4 A Yes, I do.

5 Q Did you discuss that loan with Vernon
6 Dewey at that time?

7 A Not that I'm aware of.

8 Q Did you discuss the loan with anyone when
9 you first reviewed it?

10 A Probably not. As a general course of
11 business, there would not have been a discussion held
12 on each and every file as we went through the review.

13 Q Was there anything about the loan file
14 that seemed unusual in your view?

15 A Not really.

16 Q It was all properly documented?

17 A Basically.

18 Q You say basically.

19 Were there any documents that you would
20 have expected to see in a credit file that were not
21 there?

22 A No.

1 Q Did you ever go out and visit the property
2 that collateralized this loan?

3 A No, I did not.

4 Q So you've never been out to the Whitewater
5 Real Estate Development?

6 A No, I have not.

7 Q I'd like to show you a document. It's
8 unfortunately not Bates stamped, but it is entitled
9 "Financial Statement of James B. and Susan McDougal
10 As of December 31, 1985."

11 (Handing document to witness.)

12 MR. PORTNOY: Can we go off the record
13 for a second?

14 (Discussion off the record.)

15 BY MR. NAPPI:

16 Q Do you recognize this document?

17 A Not specifically. Within the bank records
18 and files, there are financial statements of the
19 McDougal's. I don't know if this is one of those
20 records or one of those financial statements directly
21 from the file or not. There's no identification
22 marks on it so that it can be identified as such.

10

1 Q I direct your attention to the listing of
2 assets. One item is Whitewater Development Company.

3 A Correct.

4 Q It's valued at \$53,400.

5 Do you recall any conversation with anyone
6 regarding the valuation of this stock, whether they
7 felt indeed that that was a proper value for the
8 stock?

9 MR. PORTNOY: Can I ask Mr. Nappi to
10 clarify whether he's representing to the witness that
11 this is in fact the document that was produced by Mr.
12 Strange's bank, or whether this is a document that
13 was obtained elsewhere.

14 Because if we're going to ask Mr. Strange
15 about the actual entries on this financial statement,
16 it would seem to be a necessary predicate to
17 establish that that's a document that was somehow in
18 possession of the bank.

19 MR. NAPPI: I will represent that this is
20 a record.

21 THE WITNESS: This is one of the records
22 that came from our bank through a subpoena?

1 BY MR. NAPPI:

2 Q Yes.

3 A Okay. I don't remember a specific
4 discussion of December '85 or thereabouts, discussing
5 whether the values were correct or incorrect on that
6 particular stock.

7 Q I would draw your attention to the
8 liability list. There's no listing for the loan
9 outstanding from your institution for the mortgage?

10 A That is correct.

11 Q Would that be something that in the
12 ordinary course you would expect from a borrower?

13 A It depends upon how he valued the stock of
14 Whitewater, whether that's a net asset value that
15 he's showing from the company. That's a corporation
16 so it would not be unusual that the corporation
17 liability be shown on a personal statement.

18 Q I think I lost you there.

19 Could we back up?

20 It would not be unusual for the liability
21 to not be listed?

22 A Of a corporation, that is correct. The

12

1 part that possibly would make the statement more
2 complete, if there had been a contingent that he's
3 personally guaranteed. That does not show up on this
4 statement.

5 Q So it would not be that unusual in this
6 situation because at this time the loan was for
7 Whitewater Development Corporation?

8 A Right.

9 Q When you came to the bank, it was your
10 understanding that the loan was to Whitewater
11 Development Corporation?

12 A That's correct.

13 Q Do you recall, when you joined the bank in
14 1986, how the guarantee had been provided by the
15 McDougals and Clintons for this loan?

16 A Through review of the file and in
17 subsequent years, yes, I have.

18 Q Just to clarify, we are focusing again in
19 1986, I assume it's 1986, when you first reviewed
20 this file.

21 A I don't have a specific recollection of
22 the specific date in 1986 of reviewing the file, to

1 answer your question. I'm sorry, my memory's not
2 that good.

3 Q Can you place it in 1986?

4 A I would think so, somewhere in '86 or '87.

5 As we looked at the file, there was a
6 personal guarantee.

7 Q Do you recall if there was a personal
8 guarantee on the loan when you initially reviewed the
9 file?

10 A As far as I can remember, yes.

11 MR. PORTNOY: Do you recall by whom the
12 loan was guaranteed at the time you initially looked
13 at the file?

14 THE WITNESS: I think James and Susan
15 McDougal and Bill and Hillary Clinton.

16 BY MR. NAPPI:

17 Q So it was your opinion, as a banking
18 professional, that you were loaning the money to
19 Whitewater Development Corporation. That this was
20 not a loan to the Clintons and McDougals in their
21 individual capacity?

22 A That is correct.

1 Q It's also your opinion that the mortgage
2 that collateralized this loan would have run with the
3 land itself, right?

4 A Correct.

5 Q Was there anything in the credit file to
6 demonstrate that the mortgage ran with the land? Did
7 I make myself clear on that?

8 MR. BELMAN: That's a legal conclusion.

9 Do you really feel confident to give a legal
10 conclusion whether the mortgage runs with the land?

11 THE WITNESS: There was a mortgage there
12 listing property. I did not verify the surveys or
13 this type thing.

14 BY MR. NAPPI:

15 Q Was there anything in the credit file
16 indicating that, for instance, the corporation had
17 consented to a lien on its assets?

18 A No.

19 (Pause.)

20 Q Again focusing on your initial review of
21 the file, do you recall whether there were financial
22 statements there, personal financial statements from

1 both the Clintons and McDougals?

2 A I don't recall if they were there, or if
3 they were, what dates they were at this point in
4 time.

5 Q In general --

6 Well, let me rephrase that.

7 Did the bank ever experience problems
8 obtaining financial statements from either the
9 McDougals or the Clintons?

10 A Yes.

11 Q Through the McDougals?

12 A Yes.

13 Q Do you recall any specific instances?

14 A I can't specifically identify the date but
15 it would have been probably in the late eighties when
16 the McDougals were separated. We lost communication
17 with them, and did not receive statements from them
18 at that time.

19 MR. PORTNOY: When you say separated, you
20 mean when Mr. and Mrs. McDougal's marriage was
21 dissolving?

22 THE WITNESS: That's correct, yes, sir.

1 And the Clinton's financial statements, as
2 I recall, were needed and they were outdated in the
3 latter part of '86, and subsequently we got that
4 statement, as I recall, for part of '87.

5 BY MR. NAPPI:

6 Q With respect to the Clintons, how did you
7 become aware that you needed updated financial
8 statements?

9 A Through a documentation deficiency list
10 that we have within the bank that identifies the need
11 for documents out of all the files.

12 Q Do you review that in the ordinary course?

13 A Yes.

14 Q Did anyone ever bring it to your
15 attention, anyone associated with the bank ever bring
16 it to your attention that they were having problems
17 obtaining financial statements?

18 A Other than through the documentation
19 deficiency list, it would have been noted on there.
20 And Ron Proctor, being the general loan officer,
21 handling the file, we may have discussed that.

22 Q Do you have any specific recollections of

1 conversations?

2 A I'm sorry, I don't.

3 (Pause.)

4 Q I'd like to show you a second document, a
5 financial statement of James B. and Susan McDougal,
6 as of January 27, 1986. I apologize, I don't have
7 any copies.

8 (Handing document to witness.)

9 THE WITNESS: Again, I ask is this a
10 document that was produced through the subpoena?

11 MR. NAPPI: This was not produced directly
12 through the subpoena. As you can see, it was
13 produced to the House Committee.

14 THE WITNESS: But did the House Committee
15 acquire it through other means from our bank files?

16 MR. NAPPI: That's what I understand.

17 MR. BELMAN: I noticed that it says
18 "Produced by the RTC." I suppose that means you got
19 it from the RTC.

20 THE WITNESS: Okay.

21 BY MR. NAPPI:

22 Q Do you recognize this document?

18

1 A I recognize it as a financial statement
2 signed by the McDougals.

3 Q But you don't have any specific
4 recollection of reviewing this document?

5 A Not specifically, no.
6 (Pause.)

7 MR. PORTNOY: Off the record for a second.

8 (Discussion off the record.)

9 BY MR. NAPPI:

10 Q Did it ever come to your attention that
11 Whitewater Development Corporation was incurring
12 losses in its operations?

13 A At some point. I don't recall whether
14 they were losses but they were not making the
15 payments direct and the sales from the contracts were
16 making the payments. I cannot specifically say they
17 were incurring losses. I don't know that I can
18 attest to that.

19 Q What you're referring to is the fact that
20 the payments were coming directly from the escrow set
21 up for the payments by people who had the property by
22 contract?

1 A Yes.

2 Q Was that of common practice -- are to
3 receive payment like that on a contract for deed?

4 A Yes.

5 Q Were there ever deficiencies in interest
6 payments or principal payments?

7 A Not that I can recall.

8 Q I'm going to show you another record.
9 This one actually does have a Bates stamp on it.
10 It's Bates stamp number DKRT-800433.

11 (Handing document to witness.)

12 BY MR. NAPPI:

13 Q It's a letter.

14 Would you just take a moment to review
15 this?

16 (Pause.)

17 MR. PORTNOY: Just for the record, I
18 believe I have a different Bates number for the same
19 document, so the record can be clear on this, this
20 appears also to be DEK 006394.

21 MR. NAPPI: Sure. There are probably
22 several others.

1 BY MR. NAPPI:

2 Q Do you recall ever seeing this letter?

3 A Not specifically. It is dated in August
4 of '79 which was seven years prior to my coming to
5 the bank.

6 Q So you do not recall ever seeing it in the
7 credit file?

8 A No.

9 Q Was there ever an agreement that you were
10 made aware of that this loan, the Whitewater loan, if
11 I may call it that, that the principal on this loan
12 would be subject to a ten percent annual pay down?

13 A It's very possible but I don't
14 specifically recall that. It was under such an
15 agreement when I came there at the time.

16 (Pause.)

17 Q Were you satisfied with the performance of
18 the loan as far as repayment of principal?

19 A I believe we were, and that may have
20 changed from time to time, depending upon what the
21 income flow was. As this says, a ten percent, so
22 that might have changed minorly from renewal to

1 renewal, but basically yes. It was paying down,
2 being reduced each year, and that was the main idea.

3 Q Was it typical for commercial real estate
4 loans in First Ozark's lending area to amortize over
5 such an extended period of time. By that, I mean a
6 loan made in 1978 that wasn't paid down until the
7 early 1990s.

8 A You used the term "typical." I don't know
9 that it was typical but I don't know that it was
10 atypical either. It was through an agreement, as you
11 go forward sometimes to modify the payment period.

12 Q Did you have other loans in Marion County,
13 other commercial real estate loans in Marion County
14 that were outstanding for that long a time period?

15 A I am sure we did, but I cannot identify
16 specifically names to those loans at this time.

17 Q Did your bank have any loans outstanding
18 secured by property adjacent to the Whitewater
19 Development Company.

20 A Not that I recall.

21 Q You came to the bank in January of '86?

22 A Correct.

22

1 Q At that point, the bank was part of T.C.
2 Bankshares?

3 A Yes.

4 Q Do you know who owned T.C. Bankshares?

5 A It's my understanding that a gentleman by
6 the name of Frank Lyon, Jr. owned the majority stock.

7 Q Did you ever meet Frank Lyon, Jr.?

8 A On two or three occasions socially, yes.

9 Q Did you ever discuss the Whitewater loan
10 with him?

11 A Never.

12 Q Did any employees of T.C. Bankshares serve
13 on the Board of Directors of First Ozark?

14 A Yes.

15 Q Could you name those individuals?

16 A Ed Penick, Jr. and Terry Renaud.

17 Q Were they serving on the Board when you
18 came to First Ozark?

19 A Yes.

20 Q Did they continue to serve on the Board?

21 A Yes.

22 Q And both have continued to serve on an

1 uninterrupted basis?

2 A No.

3 Q Could you run us through the chronology?

4 I'm not asking for specific dates if you
5 can't recall.

6 A Mr. Penick went off the Board in the late
7 '80s, as I recall, early '90s, when he changed
8 employment with Twin City Banks, and Mr. Renaud
9 stayed on the Board, as I recall, uninterrupted until
10 December -- let's see, no, it would have been early
11 '95.

12 Q Do you know Margaret Davenport?

13 A Yes.

14 Q How do you know Margaret Davenport?

15 A She was an employee of Twin City Bank.

16 Q Would you have contacted her regarding
17 business?

18 A No. She was, as I say, an employee that
19 we knew at an affiliate bank, but who did not have
20 direct contact with our bank.

21 Q How did you come to know Ms. Davenport?

22 A As I say, she was an employee of our main

24

1 bank, of our sister bank. We got to know most of the
2 officers within the affiliate system.

3 Q Did you know a woman named Susan Sisk?

4 A Yes, I did.

5 Q How did you know Susan Sisk?

6 A Susan was a representative from Twin
7 Cities Bank that was on our lending committee.

8 Q Officers Loan Committee?

9 A Yes, sir.

10 (Pause.)

11 Q I'd like to show you yet another document,
12 Bates stamp number DKRT-700294. It's a one-page
13 document with handwritten notes on a piece of
14 stationery that is marked Hillary Rodham Clinton at
15 the top. It looks like personalized stationery.

16 (Handing document to witness.)

17 BY MR. NAPPI:

18 Q Could you just take a moment to examine
19 this?

20 (Pause.)

21 A I'm sorry, my reading of them is not very
22 good. The notes secured by mortgage.

1 MR. BELMAN: You don't have to read it.
2 Just read it to yourself.

3 I don't think you want him to read it into
4 the record.

5 MR. NAPPI: No.

6 THE WITNESS: Very good.

7 BY MR. NAPPI:

8 Q Do you recall Margaret Davenport ever
9 requesting information of you regarding the
10 Whitewater loan?

11 A No, I don't.

12 Q Do you recall any conversation with
13 Margaret Davenport in which she may have asked you
14 for the information that is contained in this note?

15 A Not that I can recall. I never had any
16 conversations with Ms. Davenport regarding the loan.

17 Q Do you know if anyone at First Ozark ever
18 had any conversation with Ms. Davenport regarding the
19 Whitewater loan?

20 A I have not any knowledge of that.

21 Q Ms. Davenport was employed at Twin City in
22 North Little Rock. Is that correct?

1 A That's correct.

2 Q Would she have had access to the credit
3 file for the Whitewater loan at Twin City in North
4 Little Rock?

5 A Not that I'm aware of.

6 MR. NAPPI: Let's go off the record.

7 (Discussion off the record.)

8 MR. NAPPI: Let's go back on the record.

9 While we were off the record, Witness'
10 counsel requested that we explain our procedure with
11 respect to documents that are shown witnesses. We
12 have explained that our standard procedure is that we
13 do not attach documents as exhibits because the
14 depositions become public and some of the documents
15 will not become public, will remain confidential and
16 be treated confidentially.

17 So while we identify documents, they will
18 not be attached as exhibits.

19 MR. PORTNOY: That's our understanding as
20 well of the Committee's practices.

21 MR. BELMAN: I just had one question of
22 you when you made the statement. I meant to ask at

1 the beginning how do you treat testimony. There
2 hasn't been any so far but in the event there is,
3 that the bank considers confidential customer
4 proprietary information, do you have a procedure
5 where the witness can request confidential treatment
6 of the information or the testimony concerning that,
7 and consider that segregated?

8 MR. NAPPI: The deposition? No, I'm not
9 aware of any.

10 MR. BELMAN: So if there's some testimony
11 that he thinks is confidential, he shouldn't respond?

12 What do you want him to do?

13 Usually in a litigation setting you have
14 some sort of protective order for that kind of
15 material. I just don't know what your procedures
16 are.

17 MR. NAPPI: I'm not aware of it ever
18 becoming an issue.

19 MR. BELMAN: It may not. Maybe I'm
20 anticipating a non-problem, but since it occurred to
21 me, I meant to ask it anyway.

22 MR. PORTNOY: We can go off the record.

1 (Discussion off the record.)

2 (Readback.)

3 BY MR. NAPPI:

4 Q If we return to Susan Sisk for a moment.
5 She served on the Officers Loan Committee?

6 A Yes.

7 Q Did she serve in any other capacity with
8 respect to First Ozark?

9 A No.

10 Q What were her dates of service on the
11 Officers Loan Committee?

12 A Late '80s, '87, '88 through probably early
13 '90s.

14 Q How frequently did the Officers Loan
15 Committee meet?

16 A Normally once a week or as necessary.

17 Q Did she participate?

18 A She would maybe once a month or every two
19 months would actually sit in. The minutes or
20 whatever would be sent to her for review.

21 Q So she didn't participate in every
22 meeting?

1 A No.

2 Q Why would she review the minutes?

3 A As part of an assignment that she had as a
4 chief lender with Twin City. It was part of their
5 policy to have somebody from the main bank sit on
6 each of the loan committees of the affiliate banks.

7 Q Did she have voting power on the loan
8 committee?

9 A Yes.

10 Q So in those instances where she did not
11 actually participate in the deliberations, would
12 decisions be held off pending her review of the loan
13 minutes?

14 A Yes, and that would be at a certain level
15 of loan. And as I recall, and I'm not positive on
16 this at this point, but between \$100,- or \$150,000,
17 the decision could be made in-house.

18 Over that, then she would review the loan
19 and would also sign off on it, or approve or reject.

20 Q And that went for loan renewals or loan
21 extensions also?

22 A Yes.

1 Q Do you recall the level being at least
2 \$100,000?

3 A Yes. I believe it was possibly more than
4 that. But I don't recall right now what the levels
5 were.

6 Q With respect to Mr. Penick and Mr. Renaud,
7 did they regularly participate in board meetings?

8 A Mr. Penick was the Chairman and he was a
9 regular participant, but Mr. Renaud was a semi-
10 regular attendee of the board meetings.

11 Q Can you quantify what you mean by semi-
12 regular?

13 A Probably in a year's time, he would attend
14 somewhere between seven and ten of the meetings.

15 Q How frequently would the board meet?

16 A Monthly.

17 Q Was there a loan committee of the board of
18 directors?

19 A Yes.

20 Q Did Mr. Penick serve on the loan
21 committee?

22 A No.

- 1 Q Did Mr. Renaud?
- 2 A No.
- 3 Q What was the discount committee's role?
- 4 A I'm sorry, I don't recall we had a
- 5 discount committee.
- 6 Q On loan renewals and loan extensions, what
- 7 were the requirements for approval by the Officers
- 8 Loan Committee?
- 9 A Excuse me, I'm sorry, would you repeat?
- 10 Q Let me rephrase that.
- 11 Was there a minimum loan amount --
- 12 Let me rephrase that again.
- 13 The Officers Loan Committee did not review
- 14 every loan, is that correct?
- 15 A That is correct.
- 16 Q What were the guidelines?
- 17 A Each officer had an established lending
- 18 limit. Anything over that limit would come to the
- 19 Officers Loan Committee.
- 20 Q Did the Officers Loan Committee review the
- 21 extension notes or renewals of the Whitewater loan?
- 22 A Yes.

- 1 Q Why was that?
- 2 A Because of the amount of the loan. As I
- 3 recall for a period of time that Mr. Proctor's limit
- 4 was at \$50,000 and the loan was higher than that so
- 5 therefore it would go through the Committee.
- 6 Q Was Mr. Proctor the loan officer
- 7 responsible for the Whitewater loan?
- 8 A When you say responsible, please elaborate
- 9 on responsible.
- 10 Q Was he the loan officer who monitored the
- 11 Whitewater loan?
- 12 A Correct.
- 13 Q He monitored it directly?
- 14 A Yes.
- 15 Q Did Vernon Dewey have any role?
- 16 A No.
- 17 Q And that was true throughout the time this
- 18 loan was outstanding?
- 19 A That is correct.
- 20 Dewey was a consumer loan officer, a
- 21 junior loan officer that did not handle loans
- 22 basically of this type.

1 Q How long was Dewey at the First Ozark
2 Bank?

3 A He was there in '86 when I came. Had been
4 there, I believe, a couple of years. And was there
5 probably through the late '80s, up until around 1990.

6 Q And you're not aware of him ever having
7 any role in the management of the Whitewater loan?

8 A No. He would review it as a member, as a
9 lender he would see it in the Committee meeting would
10 be all.

11 Q So just in his role as a member of the
12 Officers Loan Committee?

13 A Yes.

14 Q If the Officers Loan Committee decided to
15 extend or renew the Whitewater loan, would it then
16 move on to the Directors Loan Committee?

17 A No. Because of the size, there was again
18 an escalation in the amount of the loan before it
19 went to the Board Committee.

20 Q What was that rule when you arrived in
21 1986?

22 A I believe it was at the \$150,000 level.

1 Q And it remained at least at that level?

2 A Yes.

3 Q I'd like to show you another record.

4 There's a handwritten number on it. It's a two-page
5 record. The first page is D-149, the second page is
6 D-150. It's entitled "File Notes from Whitewater
7 Development Loan 5855." It's dated January 6, 1987.
8 And has the name Ron Proctor on it.

9 (Handing document to witness.)

10 BY MR. NAPPI:

11 Q Could you take a moment to review this?
12 (Pause.)

13 A Okay.

14 Q Do you recall ever seeing this record
15 before?

16 A Yes.

17 Q When did you see this record?

18 A Probably about the time it was produced in
19 '87, January.

20 Q Did you ever discuss it with Mr. Proctor?

21 A I'm sure that we did at the time.

22 Q Do you recall the circumstances under

1 which you saw this record?

2 A Probably at a general review. I don't
3 recall the specific circumstance.

4 Q Did Mr. Proctor ever tell you why he felt
5 it necessary to go out in mid-1986 and inspect the
6 Whitewater Development property?

7 A As an officer handling the loan, it was
8 prudent to do this on not only this but all loans to
9 review from time to time.

10 MR. BELMAN: I guess I should just state
11 for the record, you said mid-1986 documents. That's
12 mid-December 1986.

13 MR. NAPPI: Excuse me, I meant to say mid-
14 December.

15 THE WITNESS: The document is dated in
16 January of '87.

17 BY MR. NAPPI:

18 Q Could I direct your attention to the
19 second page.

20 A Okay.

21 Q Mr. Proctor makes some valuations as to
22 the unsold property and contracts receivable for this

36

1 development.

2 A Yes.

3 Q Did you ever discuss his method of
4 valuation?

5 A Not specifically that I recall.

6 Q Were you aware at this time that the
7 unsold property at Whitewater Development Corporation
8 had been transferred to Chris Wade?

9 A I became aware of that at some time. I'm
10 not sure exactly when, whether it was at this time,
11 prior, or after.

12 Q Did the transfer of the unsold lots to
13 Chris Wade cause you any concern about the prospects
14 of payment on the loan?

15 A Not really because the loan was not
16 altered as far as our bank was concerned.

17 Q Were you aware of the price at which Wade
18 had purchased these lots?

19 A No, I'm not.

20 As I recall, there was trading in some
21 personal properties and I don't know how it was
22 valued.

1 MR. NAPPI: Why don't we go off the
2 record.

3 (Discussion off the record.)

4 (Whereupon, at 1:20 p.m., the taking of
5 the deposition was recessed, to reconvene the same
6 day, Thursday, May 2, 1995, at a time specified.)
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1 AFTERNOON SESSION

2 (2:05 p.m.)

3 Whereupon,

4 J. WESLEY STRANGE

5 was recalled as a witness herein, and having been
6 previously duly sworn, was examined and testified
7 further as follows:

8 EXAMINATION (Continued)

9 BY MR. NAPPI:

10 Q I believe when we went off the record, I
11 was asking you questions about Ron Proctor's filing
12 notes.

13 If I can again redirect your attention to
14 the last page and the values of the property.

15 A Okay.

16 Q Now there are two assets listed, accounts
17 receivable and what notes were receivable, and the
18 underlying property.

19 A Correct.

20 Q The notes receivable, I take it, would be
21 the amounts owing on the contract for deed.

22 Is that correct?

1 A Yes.

2 Q And the land would obviously be the land
3 that the corporation still controlled when it was
4 subject to a mortgage?

5 A Subject to the mortgage that we still had
6 on the property, yes.

7 Q Now, if Whitewater had transferred the
8 remaining unsold lots to Ms. Wade, it would be an
9 asset for the purposes of the bank as far as
10 security. It would no longer be an asset of
11 Whitewater Development Corporation, is that correct?

12 A I would assume that to be correct.

13 Q With that in mind, I'd like to redirect
14 your attention to this December 31st financial
15 statement of Jim and Susan McDougal.

16 Why don't I give you this copy?

17 (Handing document to witness.)

18 THE WITNESS: Okay.

19 BY MR. NAPPI:

20 Q Now they valued their stock in Whitewater
21 Development Corporation at \$53,400.

22 A Correct.

1 Q It would stand to reason, if they had
2 released property to Wade, that the value of their
3 stock would be the accounts receivable and the
4 contract for deed.

5 A I'm not privileged to know what the
6 transfer entitled or how it was handled.

7 Q But if it was a transfer of value for
8 value, and Wade had assumed the obligation to pay
9 down that part of the mortgage, then the McDougals,
10 as shareholders of Whitewater, would not be entitled
11 to take that property or to consider that property
12 your asset.

13 MR. PORTNOY: Doug, I'm going to object
14 here.

15 Mr. Strange has observed that he has no
16 information about the specifics of this transaction.

17 MR. NAPPI: I put it to Mr. Strange, I'm
18 asking Mr. Strange for his opinion as a banker, as a
19 man experienced in real estate financing.

20 MR. BELMAN: Before you answer, I'm
21 unclear. I don't know what you're talking about
22 here, but one of these is dated December '86 and one

1 is dated December '85. Does the transfer you're
2 talking about take place before or after this
3 December '85?

4 I'm confused. I thought we were talking
5 about contemporaneous statements here, but I see now,
6 that I'm examining them, one is a year before the
7 other.

8 If you could clarify that.

9 MR. NAPPI: The transfer had taken place
10 before December of 1985.

11 MR. BELMAN: So you're representing to Mr.
12 Strange that that's when it took place?

13 MR. NAPPI: Right.

14 MR. PORTNOY: I'm still going to object to
15 Mr. Strange testifying about a transaction when he
16 doesn't know the details of the transaction.

17 MR. NAPPI: I'm not asking him to testify
18 as to the details, I'm asking for his opinion.

19 MR. PORTNOY: The problem is you're asking
20 for his opinion based on the transaction as you have
21 laid it out. I just want the record to be clear that
22 this is based on your representation and not based on

1 any understanding of the transaction that your
2 representations may or may not accurately reflect
3 what actually occurred.

4 MR. NAPPI: Absolutely. Okay.

5 MR. PORTNOY: In other words, this is a
6 completely hypothetical question.

7 THE WITNESS: Could you restate the
8 question, please?

9 MR. NAPPI: Could you re-read the
10 question?

11 (Readback.)

12 THE WITNESS: Not being privileged to the
13 specific transfers, hypothetically when a corporation
14 transfers assets, it would reduce value unless there
15 was offsetting assets taken in to offset that value.

16 BY MR. NAPPI:

17 Q I recognize that you are not intimately
18 knowledgeable about the facts in the Corporation's
19 operations.

20 If I can show you another financial
21 statement. This one is somewhat more contemporaneous
22 in time. Unfortunately, it is not Bates stamped but

1 it's a form of personal financial statement. It's a
2 three-page document, actually it's got a handwritten
3 notation D169 in the right hand corner, and it's
4 marked Twin City Bank.

5 (Handing document to witness.)

6 BY MR. NAPPI:

7 Q Could you take a moment to examine that?

8 (Pause.)

9 Have you had an opportunity to review it?

10 MR. BELMAN: I have a question about this
11 document that I would like to ask the witness about.
12 Could you excuse us for a moment?

13 MR. NAPPI: Sure.

14 (Discussion off the record.)

15 MR. NAPPI: Back on the record.

16 MR. BELMAN: We are not sure that these
17 documents are one document.

18 First of all, the cover page, which is
19 identified D-169, has a date of it looks like March
20 29. The other document is dated, the second two
21 pages are dated March 24.

22 MR. NAPPI: Can we focus on the first

1 page?

2 MR. BELMAN: Yes. I do want to state for
3 the record that the first page is the first page of
4 the document that we provided to Mr. Brenner by my
5 letter of April 24, 1996, with a second page that we
6 believe is the correct second page to this document,
7 at least as it resides in the files of the Mercantile
8 Bank.

9 And we think at least that that is the
10 document in its totality, so we're unclear what these
11 two extra pages are.

12 Maybe you know the answer to that, but
13 maybe we could clarify what the document is or at
14 least is represented to be before we address the
15 questions.

16 MR. NAPPI: You know what I'll do then? I
17 will focus on the first page.

18 MR. PORTNOY: Do you have the second page
19 with you?

20 MR. BELMAN: Oh, yes. I sent it to Mr.
21 Brenner.

22 MR. NAPPI: Let's go off the record.

1 (Discussion off the record.)

2 MR. NAPPI: Let's go back on the record.
3 We're going to work by the copy that we've been
4 provided by the witness' counsel.

5 The personal financial statement dated, I
6 read it to be March 24, 1987, for Hillary and Bill
7 Clinton.

8 BY MR. NAPPI:

9 Q Mr. Strange, have you seen this record
10 before?

11 A Yes, I have.

12 Q Do you recall when you first saw it?

13 A Approximately March of 1987. I don't
14 remember the exact date but it would have been in
15 March some time.

16 Q Do you recall the circumstances in which
17 you saw it?

18 A Yes.

19 Q Could you elaborate?

20 A I had seen, we were working on the note of
21 Whitewater to effect a renewal. We needed the
22 Clinton's statement. I had asked Mr. Clinton, he was

1 on a campaign swing through and I'd seen him at a
2 reception, and asked if he would contact me in regard
3 to the loan. He said he would.

4 Actually, Mrs. Clinton made contact a
5 month or so later, a few weeks later. I explained
6 that we needed their financial statement, and this
7 arrived. It appears that it came in actually on
8 3/26. Mr. Proctor's initials at the top of the page
9 there would indicate 3/26. So that would have been
10 when the document would have come in house.

11 He reviewed it, probably told me that it
12 was in the file at that time. I don't recall whether
13 I specifically reviewed it in detail then or not, but
14 knew that we had the statement on file.

15 Q Did Mr. Proctor discuss any concerns he
16 had with this financial statement?

17 A Not that I recall today.

18 Q You say you saw then-Governor Clinton at
19 the campaign event?

20 A Correct.

21 Q And you mentioned it to him?

22 A Right.

1 Q Did you later relate that to Susan Sisk?

2 A I'm not sure whether I did or not. It's
3 very possible that because of the renewal being
4 involved that a statement was made that we were
5 waiting on the Governor's financial statement, and I
6 may have said that I had seen him and had asked for,
7 I don't think I actually asked for the statement at
8 that time because it was a public gathering. I just
9 said I would visit with him and that was basically
10 what took place.

11 Q You asked the Governor for this at a
12 public event. Was it a matter of some concern that
13 you did not have this financial statement?

14 A I had not visited with him, had seen him
15 for some time. As I recall, Mr. Proctor had possibly
16 tried to acquire the statement and when I saw him
17 passing, and in greetings, I mentioned that I'd like
18 to visit with him about the loan. And that was it.

19 Q Did Mr. Proctor seem concerned that he'd
20 not obtained a statement?

21 A Ten years later I don't recall his degree
22 of concern.

1 Q Do you recall it being a problem obtaining
2 this financial statement?

3 A Not really. I mean, you know, a degree of
4 a problem. Asked and received, a span of time in
5 between, you know, I did not lose any sleep over not
6 having it in immediately.

7 Q Were you aware at this time, this time
8 being March of '87, that James McDougal had some
9 regulatory problems at Madison Guaranty?

10 A I don't recall that I did.

11 Q Were you aware that he was having
12 financial difficulties?

13 A No.

14 Q Do you have any recollection of why it was
15 such a concern getting his financial statement?

16 MR. PORTNOY: I believe Mr. Strange
17 testified that it wasn't such a concern. I believe
18 he testified to the contrary that it was not a
19 particular concern.

20 THE WITNESS: I don't put a great concern
21 in not getting the statement. I mean I do not recall
22 it being of any great concern that we did not get the

1 statement or did not have the statement or whatever.

2 BY MR. NAPPI:

3 Q Why would a bank want a personal financial
4 statement in the credit file for a loan like the
5 Whitewater project?

6 A Because he was one of the guarantors. On
7 any small, closely held corporation, you normally
8 required stockholders to sign guaranteeing the loan
9 and you want to know what the value of that guarantee
10 is.

11 Q So it helps you establish, for a closely-
12 held corporation, its true economic wherewithal.

13 A Sure, yes.

14 Q And it would be helpful in a decision
15 whether to renew a loan or extend a loan?

16 A Correct.

17 Q If we could focus on the financial
18 statement for a moment, on the asset side of the
19 balance sheet, we have one asset which is
20 accounts/notes receivable valued at \$50,000. And
21 another asset, real estate partial interest valued at
22 \$50,000.

1 A Correct.

2 Q And then you refer back to the schedule?

3 A Correct.

4 Q And the schedule specifies accounts and
5 notes receivable and it says, I think it's a
6 reference to Whitewater.

7 MR. BELMAN: Where are you reading?

8 MR. NAPPI: I'm on Schedule E.

9 THE WITNESS: As I interpret that it's
10 something Whittaker, possibly a second mortgage over
11 five years, 50,000.

12 BY MR. NAPPI:

13 Q Do you know that from your experience?

14 A No, I do not know if that in fact is a
15 second mortgage. I'm not knowledgeable as to who it
16 is.

17 Q The partial interest in real estate, if
18 you look at Schedule G on the second page, there's
19 actually no description of it.

20 A That's correct.

21 Q I assume there was just a mistake made in
22 filling out this form and that Schedule F contains

1 the pertinent information, if you will.

2 A If that's your assumption, okay.

3 Obviously G did not reveal anything from the back
4 side. There is a figure under G on the front side.

5 F has values placed in it.

6 Q Was this your standard form of personal
7 finance statement at First Ozark?

8 A Yes.

9 Q Do you know why it contains the Twin City
10 notation at the top?

11 A We all used the same form and for whatever
12 reason, of which I'm not sure why that was, they may
13 have picked up a form at Twin City Bank in North
14 Little Rock.

15 Q Again, I'd like to take advantage of your
16 experience in banking and ask you about the valuation
17 of real estate, the \$50,000 valuation of real estate.

18 Again, if you have a corporation that has
19 two assets, real estate and notes receivable, if the
20 real estate is transferred value for value, would it
21 be your experience that that corporation would not be
22 entitled to include that as an asset?

1 MR. PORTNOY: Doug, I'm going to object to
2 the entire line of questioning. Mr. Strange is here
3 as a fact witness, not as an expert witness on the
4 valuation of real estate, corporate assets, or
5 anything else of the kind.

6 If you want to ask him about specific
7 transactions as to which he has knowledge, that's
8 fine. But I think it's inappropriate at this point
9 to ask him to speculate on the basis of information
10 that's not available to him.

11 MR. NAPPI: I'm not asking Mr. Strange to
12 confirm the information on this. I, for one, am not
13 experienced in preparing or reviewing financial
14 statements for commercial real estate developments.

15 I think Mr. Strange probably does have
16 some experience there. I was just asking for his
17 opinion.

18 I understand that he does not have the
19 entire factual predicate of the Whitewater
20 Development Corporation in front of him.

21 BY MR. NAPPI:

22 Q Do you feel you can answer the question?

1 MR. BELMAN: Go ahead and finish your
2 colloquy because I have a question.

3 MR. PORTNOY: What I continue to object to
4 is treating Mr. Strange as an expert witness on the
5 subject of valuation of property. Mr. Strange is
6 here as a fact witness.

7 If you want to bring in banking experts or
8 property valuation experts, that's a different
9 matter.

10 BY MR. NAPPI:

11 Q Let me ask you this question, Mr. Strange.
12 Under Arkansas contract for deed financing, once a
13 contract for deed is entered into, the seller has an
14 asset which is an account receivable. Is that
15 correct?

16 A Yes.

17 Q Are they also entitled to claim the value
18 of the underlying property as an asset?

19 A No. You would have one asset.

20 (Pause.)

21 Q You say you had mentioned the need to
22 Governor Clinton for a financial statement. Was that

1 the first time you had met Governor Clinton?

2 A I don't recall. It would be one of the
3 first times.

4 Q Other than that, had you ever had dealings
5 with Governor Clinton relating to the Whitewater
6 Development Corporation?

7 A I don't believe that I had directly, no.

8 Q Do you know if anyone else at the bank or
9 any member of the bank's board of directors did?

10 A I'm assuming that Mr. Proctor had because
11 he was handling the loan, and Mr. and Mrs. Clinton
12 were on the loan obviously so he would have had
13 contact with them.

14 Q What about Mr. Penick?

15 A Not that I know of.

16 Q And Mr. Renaud?

17 A Not that I know of.

18 Q Did Mr. Renaud's brother work for First
19 Ozark?

20 A For a short period of time, yes.

21 Q Do you know if he had contact with
22 Governor Clinton regarding the Whitewater loan?

1 A That's prior to my tenure there, so I
2 don't have any knowledge.

3 Q You say that you made the request to
4 Governor Clinton.

5 MR. NAPPI: Let's go off the record.

6 (Discussion off the record.)

7 THE WITNESS: The request was to discuss
8 about the loan, not specifically to discuss any
9 details about the loan.

10 BY MR. NAPPI:

11 Q What's the distinction you're making?
12 Could you elaborate?

13 A The distinction, I did not ask him for a
14 financial statement or any particular document. I
15 said if he had a moment in the future, that he could
16 contact me to discuss the loan.

17 Q Okay. Mrs. Clinton contacted you with
18 regard to the loan?

19 A As I recall, that's right.

20 Q And that was in March of '87?

21 A No, it would have been later in the fall
22 of '86.

1 Q Was this the first contact you'd had with
2 Mrs. Clinton?

3 A I believe it was, yes.

4 Q Could you tell us what the conversation
5 you had with Mrs. Clinton?

6 A At this point, I don't have a recollection
7 of specific details.

8 Q Did it take place over the telephone?

9 A As I recall, it did.

10 Q Do you recall how long the conversation
11 was?

12 A I'm sorry, no.

13 Q Do you recall if she seemed knowledgeable
14 about the Whitewater Development loan?

15 A As I recall, there was no detailed
16 discussion about the loan. It probably entailed
17 something to the effect that what we needed. I asked
18 her if she could provide us with their financial
19 statement. I may or may not have explained the last
20 time why we needed it. It would not have been a
21 lengthy conversation I'm sure.

22 Q Subsequent to that conversation, did you

1 have other contacts with Mrs. Clinton regarding the
2 loan?

3 A Yes.

4 Q Do you recall when the next contact was?

5 A Not really. Not specifically.

6 Q Do you recall any specific contacts?

7 A Any time frames, no. We had contacts,
8 there were times that she had requested documentation
9 from the loan. I think I supplied that.

10 There was some written communication from
11 time to time where she had requested documentation.
12 I think at one point they were working on their taxes
13 and needed some information which was supplied to
14 them.

15 Q Did Mr. Penick ever mention discussions he
16 may have had with Mrs. Clinton?

17 A No.

18 Q Mr. Renaud?

19 A No.

20 Q Did Mr. Proctor?

21 A Did Mr. Proctor what?

22 Q Ever discuss contacts he had with Mrs.

1 Clinton regarding the loan?

2 A He may have, but they were not significant
3 enough that they were ingrained in my memory to the
4 point that I can recall them.

5 MR. PORTNOY: Sir, does that mean that you
6 can't recall whether such contacts occurred or you
7 can't recall whether you were made aware of the
8 content of the discussions?

9 THE WITNESS: Correct.

10 MR. PORTNOY: The latter?

11 THE WITNESS: Both probably. That is to
12 say I don't recall that there were discussions, or if
13 there were discussions, that I might or might not
14 have been made aware of.

15 BY MR. NAPPI:

16 Q Could I show you another document? It's a
17 multipage document entitled First Ozark National Bank
18 Officers Loan Committee Minutes, and it's dated, I
19 can't make out the specific day. It's in 1987.

20 (Handing document to witness.)

21 MR. NAPPI: Mr. Portnoy just pointed out
22 that his copy indicates that it's January 8, 1987.

1 (Pause.)

2 BY MR. NAPPI:

3 Q I'd like to focus your attention on the
4 second page.

5 A Okay.

6 Q First of all, do you recall ever seeing
7 this document?

8 A It would be part of the file in the bank,
9 yes.

10 Q Do you have a specific recollection of
11 ever reviewing this record?

12 A I'm sure that I did, but I don't have
13 specific recollection of reviewing it or questions at
14 the time.

15 Q Do you recall this January 8, 1987
16 meeting?

17 A Sorry, I don't.

18 Q If you'd like to direct your attention to
19 the second page and the item Whitewater Development
20 Company.

21 A Okay.

22 Q It says, risk rating 3.

1 A Yes.

2 Q What does that mean?

3 A A 3 rating in our bank were those loans
4 that are the traditional normal risk loans. We had a
5 risk rating of 1 through 6. Three would be a very
6 normal loan.

7 Q So not a top performer but not a loan that
8 you're going to write off?

9 A A 1-rated loan typically would be a
10 government guaranteed loan, a CD guaranteed loan.
11 Three would be normal. Four would be watch. Five
12 substandard. Six doubtful. Those are terminologies
13 used by the regulatory bodies.

14 MR. PORTNOY: I'm sorry, could you state
15 again what 4, 5, and 6 are?

16 THE WITNESS: Four would be watch, 5
17 substandard, 6 doubtful.

18 BY MR. NAPPI:

19 Q So it parallels like what the OCC rates.

20 MR. PORTNOY: Could I have the 1 and 2
21 terminology?

22 THE WITNESS: A 1-rated loan would

1 normally be a government guaranteed backed loan, CD
2 backed. Some type of liquid securities.

3 Two would be something slightly less than
4 that but obviously a low percentage-to-value loan,
5 high equity, strong repayment capacity.

6 Three was a very typical then loan.

7 BY MR. NAPPI:

8 Q Do you recall if at any time this loan
9 received a risk rating below 3, 4 or 5?

10 A No.

11 Q Did it ever receive a rating of 1 or 2?

12 A Not that I'm aware of.

13 MR. PORTNOY: Again, sir, I apologize for
14 interrupting but I wasn't sure whether you were
15 saying, don't remember whether it ever received a
16 rating of 4 or 5, or whether you remembered that it
17 did not.

18 THE WITNESS: No, it did not.

19 MR. PORTNOY: Thank you.

20 BY MR. NAPPI:

21 Q The next record I'd like to direct your
22 attention to is a guarantee executed by Bill Clinton

1 and Hillary Rodham Clinton dated March 26th.

2 A Is that '87?

3 Q '87, excuse me.

4 (Handing document to witness.)

5 BY MR. NAPPI:

6 Q Attached to the back is actually a copy of
7 a telephone message.

8 A Okay.

9 Q If I could direct your attention to the
10 telephone message first. It appears to be a message
11 from Ron Proctor to HRC.

12 Do you recall Ron Proctor ever telling
13 you, during this time, this time being the spring of
14 '87, that he had reached out to Mrs. Clinton for a
15 guarantee?

16 A No.

17 Q Do you recall him ever saying he had any
18 problems obtaining a guarantee?

19 A Not that I recall.

20 Q Do you recall anyone associated with the
21 bank ever expressing concern that you were asking the
22 Clintons for a guarantee?

1 A Not that I'm aware of.

2 Q Did the Clintons ever express concern
3 about providing a guarantee on this loan?

4 A Not that I'm aware of.

5 MR. BELMAN: Just for the record, the
6 document we've been looking at this three pages. The
7 first page appears to be a guarantee by the Clintons,
8 the second page is a guarantee by the McDougals, and
9 the third page is this note. These aren't in
10 somebody's files all together, are they?

11 These are three separate documents, right?

12 MR. NAPPI: Right. I'm not alleging it's
13 one document.

14 MR. BELMAN: I wasn't saying so. I just
15 wanted to clarify the record, especially since we're
16 not attaching these things. I want to make clear
17 what we've got.

18 MR. NAPPI: Fair enough.

19 (Pause.)

20 BY MR. NAPPI:

21 Q The next record I'd like the witness to
22 examine is Directors Loan Committee Minutes from

1 December 7, 1987.

2 (Handing document to witness.)

3 (Pause.)

4 THE WITNESS: Okay.

5 BY MR. NAPPI:

6 Q The bottom of the page, document
7 deficiency reviews. Do you recall why the
8 requirement for financial statements on the McDougals
9 was waived?

10 A Yes.

11 Q Would you elaborate, please?

12 A As stated there, the payments on the
13 escrow was being controlled and made to the bank, the
14 loan was being reduced, the collateral seemed to be
15 sufficient to cover the loan, and we had the
16 guarantees of the Clintons and the McDougals.

17 Q Why was it not waived for the Clintons, do
18 you recall?

19 A Because we were still in contact with the
20 Clintons, and at that time, the McDougal's marriage
21 was falling apart and we could not get them to
22 respond.

1 Q So it was a question of not being able to
2 contact them?

3 A Right.

4 Q The next document is entitled "Request for
5 Loan Documentation Waiver." It's got the serial
6 number D-181.

7 (Handing document to witness.)

8 MR. BELMAN: Do you want to put a date in
9 on that, July 15th, 1988?

10 MR. NAPPI: Yes.

11 BY MR. NAPPI:

12 Q Do you recall seeing this record?

13 A Yes.

14 Q Do you recall the circumstances?

15 A As I recall, yes.

16 Q Could you elaborate?

17 A The document requests a waiver of personal
18 financial statements on the Whitewater loan. The
19 reason for that was that the payments were being
20 derived from the escrow contracts, and we still felt
21 that we had sufficient collateral in the unsold lots
22 and the escrow contracts to cover the amount of the

66

1 note which, at that time, as I recall, was in the
2 something under \$50,000 level.

3 Q Do you recall whether the personal
4 financial statements on the guarantors were waived in
5 this situation?

6 A I believe that's what the document calls
7 for is personal financial statements of the
8 guarantors were waived.

9 Q It's a request from Proctor, is it not?

10 A Right. And I approved that.

11 Q So then it would have been waived?

12 A Yes.

13 Q For all guarantors?

14 A Yes.

15 Q Including the Clintons?

16 A Yes.

17 Q Do you recall why there was a waiver for
18 the Clinton's financial statements?

19 A The same reason as there was for the
20 McDougals at this time. The loan was performing and
21 had sufficient collateral from the corporation.

22 Q Wouldn't you want financial statements

1 again to verify the financial wherewithal of the
2 people who stood behind the closely-held corporation?

3 A At this point, with the amount of the
4 loan, as it continued to pay down, we did not deem it
5 to be necessary.

6 (Pause.)

7 Q I'd now like the witness to examine a
8 record. It's an April 12, 1988 letter from J.W.
9 Strange to Hillary Clinton with attachments.

10 (Handing document to witness.)

11 BY MR. NAPPI:

12 Q That has two pages of attachments and has
13 a Bates stamp number CBF-0408 through 0410.

14 A Okay.

15 Q Do you recall drafting this letter?

16 A Yes.

17 Q The letter references a phone
18 conversation. Do you recall that phone conversation?

19 A Vaguely.

20 Q Can you?

21 A As I recall, Mrs. Clinton called me and
22 asked if I could put together the information that I

1 sent to her for some tax question or tax preparations
2 that they were working on.

3 Q Was this the first time you had spoken to
4 Mrs. Clinton since you had talked to her in 1987?

5 A I'm not sure. It may have been.

6 Q Why did Mrs. Clinton call you and not Mr.
7 Proctor?

8 A I'm not sure. It could very well have
9 been that he was out of the bank at the moment, and
10 she talked to me, so therefore I handled it.

11 Q Had anyone ever expressed any concern
12 regarding the way Mr. Proctor administered the
13 Whitewater loan?

14 A No.

15 Q Who compiled the data that's attached to
16 the cover letter?

17 A I'm not sure. One of our clerks probably
18 in the loan department.

19 Q Would this have included all outstanding
20 escrow accounts during 1987?

21 A It should have, yes.

22 Q And the escrow accounts were for the

1 contract for deed owners?

2 A Right.

3 Q Some of these are designated "no activity
4 during 1987." Would that mean there were no payments
5 of interest or principal?

6 A That's correct.

7 Q Some of the balances actually increase
8 from January of '87 to December of '87.

9 Could you explain why that would occur?

10 A I don't know.

11 Which specific --

12 Q Let's take Stanley Yancy, the first
13 listing under escrow.

14 A I don't know.

15 Q Does that seem odd for this kind of
16 account to accumulate a balance?

17 A If the interest was accruing at a rate
18 that was not sufficient to meet principal and
19 interest, it very possibly could.

20 MR. PORTNOY: I'm sorry, sir, could you
21 restate what you just said? I don't think I
22 understood you.

70

1 THE WITNESS: The interest rate accrued
2 during the year would have been more than the amount
3 paid on it.

4 MR. PORTNOY: In other words, the payments
5 would be less than the amount due based on interest
6 rate?

7 THE WITNESS: Correct.

8 MR. PORTNOY: Is that a concept sometimes
9 called negative amortization in connection with
10 mortgages?

11 THE WITNESS: It could be. I don't know
12 that that term was applied to these particular loans.
13 Negative amortization, I don't really understand the
14 term that well, but it would be a negative, that's
15 right.

16 (Discussion off the record.)

17 MR. BELMAN: Just for the record, I guess
18 there's one instance where that happened. Was there
19 another instance?

20 MR. NAPPI: M.D. Blair.

21 THE WITNESS: I'm sorry?

22 MR. BELMAN: I think that one does --

1 MR. NAPPI: You're right, I stand
2 corrected.

3 MR. PORTNOY: It also should be noted for
4 the record that Mr. Yancy has two accounts, or
5 appears to have two accounts.

6 BY MR. NAPPI:

7 Q Would this record provide an accurate
8 snapshot, as of December 31st, 1987, of the total
9 value of accounts receivable outstanding to the
10 Whitewater Development Corporation?

11 A Possibly not.

12 Q How might it not?

13 A These are the escrows that we had pledged
14 to the loan. There may have been other accounts out
15 there that we were not aware of or did not have
16 pledged.

17 Q So you did not have all escrow accounts
18 pledged to it?

19 A I'm not sure.

20 MR. BELMAN: Maybe I should interject
21 this. I think what's happened with Mr. Yancy is that
22 they've reduced the figures. If you add \$11,198.63

1 to the amount of principal paid during 1987,
2 \$1620.13, you wind up with \$12,818.76. Given the
3 fact that those numbers coincide to the penny, it
4 appears to me that what happened is whoever typed
5 this up just reversed the balance as of 12/31/87 and
6 the balance of 1/1/87.

7 Now I'm not here to testify, I'm just
8 saying that.

9 MR. NAPPI: Speaking out of common sense
10 and basic arithmetic skills.

11 MR. BELMAN: That's exactly what happened,
12 that that one was reduced as well.

13 MR. PORTNOY: It should be noted that Mr.
14 Yancy's other account does show a reduction and that
15 the entries are precisely equivalent to the process
16 you've just described, total principal paid plus the
17 remaining balance equals the balance that was due at
18 the beginning of the year.

19 (Discussion off the record.)

20 MR. NAPPI: Let's go back on the record.

21 BY MR. NAPPI:

22 Q The next document I'd like to direct your

1 attention to is a letter on the Rose Law Firm's
2 stationery dated June 9th, 1988. It's a letter to
3 the McDougals from Hillary Rodham Clinton. It
4 references you and a conversation you had with Mrs.
5 Clinton.

6 Do you recall having a conversation
7 regarding corporate resolutions with Mrs. Clinton?

8 A I believe I did, yes.

9 Q Did you just have one conversation?

10 A As far as I know.

11 Q What was the problem at that point? Was
12 it again that the McDougals were?

13 A The McDougals were out of contact. We
14 could not contact them. And I had called and asked
15 Mrs. Clinton if she could intercede for us to get us
16 some help.

17 Q By this time, June 9, 1988, was Mrs.
18 Clinton your contact person for Whitewater
19 Development Corporation?

20 A Correct.

21 Q You would contact Mrs. Clinton rather than
22 try to contact Governor Clinton?

1 A That is correct.

2 Q When did that situation obtain? Was Mrs.
3 Clinton always your primary contact with respect to
4 this loan?

5 A Yes.

6 MR. PORTNOY: Is that as opposed to Mr.
7 Clinton or as opposed to Mr. Clinton, Mr. McDougal
8 and Mrs. McDougal?

9 Was there a time when the McDougals were
10 your primary contact?

11 THE WITNESS: No.

12 MR. PORTNOY: So it was always Mrs.
13 Clinton?

14 THE WITNESS: Yes.

15 (Pause.)

16 BY MR. NAPPI:

17 Q The next item I'd like you to look at is a
18 First Ozark National Bank letter of July 19, 1988.
19 It appears to have been signed by the witness.

20 (Handing document to witness.)

21 BY MR. NAPPI:

22 Q Do you recall drafting this letter?

1 A Yes, I do.

2 Q What prompted you to draft this letter?

3 A The note had matured and we had attempted
4 to get it renewed. And at that time, the resolution
5 was that it calls for the McDougals' signature and we
6 were trying to get it renewed. That was the reason
7 for the letter.

8 Q Was there a concern about this loan being
9 past due?

10 A It was not past, past maturity, technical
11 term.

12 Q The letter says to get it off the past due
13 status.

14 A Right.

15 Q What does that mean?

16 A That means that it had reached maturity.
17 The note had continued to be paid as scheduled, but
18 the official note had actually expired.

19 Q Was that a matter of concern?

20 A Yes.

21 Q Was there any discussion about calling the
22 note at this time?

1 A No.

2 Q Do you ever recall any meetings of the
3 Officers Loan Committee where any loan officer
4 suggested that this loan should be called?

5 A No.

6 Q Do you recall Ron Proctor ever expressing
7 concern about the status of this loan?

8 A Other than the maturity, that it was past
9 maturity and we needed to get it renewed, no.

10 Q But you don't recall him saying anything
11 like, maybe we should call this loan?

12 A No.

13 MR. PORTNOY: Can you recall Mr. Dewey
14 ever suggesting that the loan should be called?

15 THE WITNESS: Never.

16 BY MR. NAPPI:

17 Q Do you recall Mr. Dewey ever expressing
18 concern about the loan?

19 A Never.

20 (Pause.)

21 Q I'd now like the witness to look at a
22 record again. It contains a handwritten designation

1 DI-92. It's a June 8, 1990 letter on Ozark National
2 Bank stationery. It appears to have been signed by
3 the witness.

4 (Handing document to witness.)

5 THE WITNESS: Okay.

6 BY MR. NAPPI:

7 Q Do you recall writing this letter?

8 A Yes.

9 Q Do you recall the circumstances that led
10 you to draft this letter? Obviously it's an
11 enclosure letter with some documents.

12 A Correct. It was again the phone call from
13 Mrs. Clinton requesting the basic content of the
14 credit file that she was, for whatever reason,
15 getting information put together. I think that there
16 was some discussion between the Clintons and the
17 McDougals about payments or what not that she was
18 working on.

19 Q Do you recall what the discussion was?

20 A She did not elaborate on that that I
21 recall.

22 Q Did it seem like a dispute or just trying

1 to resolve?

2 A I don't specifically remember but I don't
3 recall any irritation, dispute type of comment that
4 she would have made to me. More of a resolution.

5 Q At this time, June of 1990, was Mrs.
6 Clinton still your primary contact person on this
7 loan?

8 A Correct.

9 Q Were the entire contents of the credit
10 file provided to her?

11 A No. As indicated in the letter, some of
12 the bulkier items, deeds of release, etcetera, was
13 not provided, that she had indicated that she did not
14 need.

15 Q Did she indicate what she needed?

16 A I think the payment records, the escrow
17 balances, these types of documents.

18 Q Did she mention any copies of financial
19 statements?

20 A I don't recall that she did.

21 Q Did she mention why she needed these
22 records?

1 A As previously stated, they were working on
2 something, as I recall, between the McDougals and the
3 Clintons.

4 Q Did you provide copies or originals?

5 A Copies.

6 Q Was this an unusual request in your
7 experience?

8 A Not particularly unusual. Several times
9 borrowers will want to come back and obtain the exact
10 records that their banks have.

11 Q Was this the only time she came to you for
12 records?

13 A No, I don't believe so.

14 I believe an earlier letter that we looked
15 at had requested some documents for her tax return
16 purposes.

17 Q But I mean, -- excuse me, I apologize.
18 Other than that earlier request.

19 A As I recall, that is yes.

20 Q The next item I'd like you to look at is a
21 March 4, 1992 unsigned letter from Hillary Rodham
22 Clinton.

1 (Handing document to witness.)

2 BY MR. NAPPI:

3 Q Do you recognize this record?

4 A Yes.

5 Q Do you recall a discussion prior to
6 receiving this record with Mrs. Clinton?

7 A I don't recall that I do. I think the
8 document came into the bank, she may have called and
9 verbally said that she was sending it. As I recall,
10 Loretta Lynch was a secretary for either she or Mr.
11 Clinton and again they were working on documentation
12 for some reason.

13 Q Did she explain why they were trying to
14 amass documentation?

15 A Not specifically as I recall. This was
16 either in a period of time that the presidency was
17 being decided or what not, and they were going
18 through it for whatever reason. I don't know.

19 Q Did you ever have any contact with Loretta
20 Lynch?

21 A Yes.

22 Q Did she call you or did she come up?

1 A I never met with the lady in person. As I
2 recall, my contact was probably twice with her by
3 phone requesting documentation.

4 Q Do you recall what documents she
5 requested?

6 A Not specifically. I think again basically
7 the documents, the renewal notes, the payment
8 records, etcetera.

9 Q Did she ever request financial statements?

10 A Not that I specifically recall.

11 Q This '92 request, was it the first such
12 request you'd received from Mrs. Clinton since the
13 1990 request that we just went over?

14 A I believe that's right.

15 Q In the intervening time period to 1992,
16 Mrs. Clinton remained your point of contact?

17 A As far as I know.

18 MR. PORTNOY: Does that suggest that there
19 actually was a contact?

20 THE WITNESS: Not that I'm aware of.

21 BY MR. NAPPI:

22 Q You don't recall?

1 A I might have a record in the file.

2 MR. PORTNOY: When Mr. Nappi asked you if
3 Mrs. Clinton remained a key point of contact, that
4 means that nobody supplanted her but it doesn't
5 necessarily mean you spoke with her?

6 THE WITNESS: That is correct.

7 (Pause.)

8 BY MR. NAPPI:

9 Q The next record I'd like to show you is
10 Bates stamped DKS N 029771.

11 Before we move on, you were under the
12 impression that Loretta Lynch was an assistant or a
13 secretary?

14 A That was my understanding.

15 Q How did you come by that understanding?

16 A From Mrs. Clinton. It may have been that
17 when I talked to her personally, that that's how she
18 identified herself too, but I can't be positive of
19 that.

20 (Handing document to witness.)

21 BY MR. NAPPI:

22 Q Why don't you examine this record.

1 (Pause.)
2 BY MR. NAPPI:
3 Q Can you identify this record?
4 A Not specifically.
5 Q Why do you say not specifically?
6 A Well, it first of all is the bulk of the
7 record is very blurred and unreadable. The first two
8 pages I do not recognize at all. The following pages
9 are what appears to be records of payments on the
10 Whitewater loan but they are so blurred that it's
11 difficult to track specifically.
12 Q Fair enough.
13 I'm not going to ask you to track it.
14 A Thank you.
15 Q The fax heading, if you will, on pages
16 where it is actually legible, indicates it's First
17 Ozark National Bank, is that correct, First
18 National?
19 A Okay, yes.
20 Q Do you recall being requested to provide
21 this kind of data for a computer printout of loan
22 history at any time in -- this is 1992, other than to

1 Mrs. Lynch, by Loretta Lynch?
2 A Not that I'm aware of. That's our fax
3 number.
4 MR. PORTNOY: Were you indicating that the
5 fax footprint shows a date of 1992?
6 MR. NAPPI: Yes.
7 MR. PORTNOY: Thank you.
8 MR. NAPPI: I guess we can move on at this
9 point.
10 THE WITNESS: Okay.
11 BY MR. NAPPI:
12 Q Do you recall a time in 1987 when the
13 Arkansas State Legislature considered intercounty
14 branching legislation for banks in counties with
15 populations over 200,000?
16 A I recall that there was legislation going
17 on, yes, I recall.
18 Q Do you recall if TCB or TC Bankshares had
19 an interest in this legislation or was supporting its
20 passage?
21 A I don't recall whether they were or were
22 not. Specifically it was an issue in the state and

1 the banking industry, but I don't recall specifics
2 about who supported it or who opposed it.

3 Q Did you ever discuss this legislation with
4 anyone associated with TC Bankshares?

5 A Not that I'm aware of.

6 Q Do you recall in 1988 a special session of
7 the Arkansas legislature where the Omnibus Banking
8 Bill was taken up?

9 A I believe I do.

10 Q Do you recall if TC Bankshares had a
11 position in support of this legislation?

12 A I think they did, yes.

13 Q Do you recall discussing this legislation
14 with anyone associated with TC Bankshares?

15 A As I recall, I did, because Flippin was
16 trying to obtain a branch in one of the neighboring
17 counties and it had some specific interest at that
18 point.

19 Q Do you recall who you spoke with?

20 A I would assume, I don't know, possibly Ed
21 Finney who was the Chairman of Whitewater.

22 Q During this time period, '87 and '88, you

1 previously testified that the board would not have to
2 consider renewing or extending the Whitewater loan,
3 is that correct?

4 A That's correct.

5 Q Do you recall during this time period, Ed
6 Penick or Mr. Renaud making inquiry regarding the
7 Whitewater loan?

8 A No.

9 Q Mentioning that they'd talked to the
10 Clintons about the Whitewater loan?

11 A No.

12 Q Did Susan Sisk ever make inquiry regarding
13 the Whitewater loan outside of any discussion of
14 renewals at the Officers' meeting?

15 A No.

16 MR. PORTNOY: Question just to clarify Mr.
17 Strange's answer.

18 Mr. Nappi asked you if you recalled
19 whether Mr. Penick or Mr. Renaud made any inquiries
20 about the Whitewater loan. And your response was no.

21 Does that mean you don't recall it
22 occurring or you recall it did not occur?

1 THE WITNESS: I do not recall it
2 occurring. I do not believe that it did occur.

3 MR. PORTNOY: Thank you.

4 BY MR. NAPPI:

5 Q Did anyone associated with TC Bankshares,
6 and by that I mean that would include Mr. Penick, Mr.
7 Renaud, Susan Sisk, Margaret Davenport, or anyone
8 else you might have come into contact with associated
9 with TC Bankshares, ever provide you with information
10 or comments regarding the Whitewater loan that they
11 said had been conveyed to them by the Clintons?

12 A No, they did not.

13 Q Did anyone from the Arkansas Governor's
14 office ever contact you regarding the Whitewater
15 Development loan?

16 A As far as I know, I never had any contact
17 with the Governor's office direct about this loan.

18 Q Indirectly?

19 A Through Mrs. Clinton. I don't know how
20 indirect or direct you'd determine that to be.

21 Q So you never had any conversations with
22 Betsey Wright?

1 A No.

2 Q Sam Bratton?

3 A No.

4 Q Did you ever have any conversations with
5 Bill Ford regarding the Whitewater loan?

6 A No.

7 Q Marlin Jackson?

8 A No.

9 MR. NAPPI: I have no further questions.
10 (Recess.)

11 EXAMINATION

12 BY MR. PORTNOY:

13 Q Good afternoon, Mr. Strange. My name is
14 Jim Portnoy. I'll ask a few questions to supplement
15 those Mr. Nappi has asked.

16 Starting first with the branch banking
17 legislation, it's been suggested that there was some
18 connection between your bank's treatment of the
19 Whitewater loan and the branch banking legislation.

20 Do you have any reason to believe that to
21 be true?

22 A None whatsoever.

1 Q Did anyone ever suggest to you that you
2 should provide some kind of special or preferential
3 treatment for the Whitewater loan in return for the
4 Governor taking or not taking a position with respect
5 to legislation?

6 A No.

7 MR. NAPPI: Any legislation?

8 MR. PORTNOY: Any legislation.

9 THE WITNESS: No.

10 BY MR. PORTNOY:

11 Q Did anyone ever suggest to you that you
12 should afford the Whitewater loan any kind of special
13 or preferential treatment for any reason?

14 A To the contrary, I think it was treated
15 very non-special so that it would not come under
16 criticism that it was given special treatment.

17 Q Did anybody from Twin City Bank or the
18 parent company ever inquire of you in any way about
19 the status of the Whitewater loan during the period
20 1987-88 when the legislation was being considered?

21 A No special inquiry was ever made.

22 As we reviewed the loans and ratifications

90

1 at the board meetings there might have been an
2 inquiry as to the status of it but never in regard to
3 any legislation.

4 Q So any inquiry about the loan would have
5 occurred in the normal course of business?

6 A That's correct.

7 Q And it would have occurred at a loan
8 officers meeting or directors of the loan committee
9 meeting?

10 MR. NAPPI: To the best of your
11 recollection.

12 THE WITNESS: That's right.

13 BY MR. PORTNOY:

14 Q You've indicated that you first learned
15 about the Whitewater loan when you looked at a
16 document deficiency list.

17 Did I understand you correctly, sir?

18 A No, I don't believe that was correct.

19 My review of all loans, when I went into
20 the bank, I would have come across it at that time.

21 Q And at that time, did anybody indicate to
22 you that there was any particular problem with the

1 Whitewater loan?

2 A No.

3 Q At that time, did you have any reason to
4 think that the Whitewater loan was anything other
5 than just another loan in the bank's portfolio?

6 A No.

7 Q There did come a time, though, that you
8 saw the Whitewater loan on a document deficiency
9 list?

10 A That is correct.

11 Q I believe you testified that you don't
12 have a specific recollection of seeing the loan on a
13 list, but you believe that you did.

14 Is that correct?

15 Or do you actually have a recollection of
16 seeing the loan on a list?

17 A I think it was actually on a documentation
18 deficiency list that we kept at the bank.

19 Q Are you aware of any documents that were
20 missing from the loan file with the exception of
21 financial statements at some point?

22 A No.

1 Q Is it particularly rare for a loan to find
2 its way to a document deficiency list?

3 A No. Because of the documentations that
4 are required, a lot of those are annual statements,
5 and they will run past due, so it's not a rarity.

6 MR. NAPPI: Is it a rarity in a commercial
7 real estate loan like this?

8 THE WITNESS: No.

9 BY MR. PORTNOY:

10 Q So a document deficiency is something that
11 the bank wants to correct but it's not a red flag,
12 for example?

13 A Correct.

14 Q Sir, we've been told that the usury laws
15 in Arkansas in the mid-to-late 1980s made long term
16 loans difficult.

17 Do you have a recollection about that?

18 MR. NAPPI: What do you mean, we've been
19 told?

20 MR. PORTNOY: Let me state the question
21 differently.

22 BY MR. PORTNOY:

1 Q Do you have any recollection of whether
2 loans were commonly structured as one-year renewable
3 loans in order to accommodate Arkansas' usury laws?

4 A Correct, they were.

5 Q Would you explain that, sir?

6 A To eliminate interest risk because of the
7 usury structure within the law, it was not uncommon
8 to structure from 24 months or less. Normally those
9 would be in the 12 to 18 month structure.

10 Q Usury laws are limits on the interest rate
11 that can be charged?

12 A That is correct.

13 Q And the State of Arkansas had in effect in
14 the 1980s a usury law that limited the rate of
15 interest that a bank could charge?

16 A That is correct. The only thing exempt
17 was residential real estate.

18 Q Commercial real estate was not exempt?

19 A That is correct.

20 Q So there was a limit on the interest rate
21 that the bank could charge on the Whitewater loan?

22 A Correct.

1 Q Is it typical to charge a higher interest
2 rate for a longer term loan?

3 A Yes.

4 Q So a shorter term loan would have a lower
5 interest rate?

6 A That is correct.

7 Q If the usury laws precluded the bank from
8 charging a high interest rate, did that make it
9 difficult for the bank to write long term loans?

10 A Yes.

11 Q I believe you just testified that to get
12 around this problem, the bank would typically or
13 commonly write relatively short term loans of 24 months or 18
14 months or maybe 12 months?

15 A That is correct.

16 MR. NAPPI: Can I ask a question?

17 MR. PORTNOY: Certainly.

18 MR. NAPPI: Did the situation regarding
19 the usury laws for corporate real estate loans change
20 at any point?

21 THE WITNESS: It changes every time the
22 discount rate changes. Arkansas usury is based upon

1 the discount 500 basis points, five percent over
2 discount.

3 MR. NAPPI: But at one point, and correct
4 me if I'm wrong, there was a ten percent cap at one
5 point on the usury cap if you charged more than ten
6 percent on a loan?

7 THE WITNESS: It's very likely if the
8 discount rate was five percent it would be, right.

9 MR. NAPPI: One other point to clarify for
10 the record. The record probably speaks for itself
11 but you were not employed by Citizens Bank of Flippin
12 when the loan was originally underwritten, right?

13 THE WITNESS: That's correct.

14 MR. NAPPI: So your testimony regarding
15 interest rates would again be just experience in
16 banking?

17 THE WITNESS: I'm not sure that I
18 understand the question.

19 MR. NAPPI: It's because I phrased it
20 rather poorly.

21 Mr. Portnoy had asked you about trends,
22 relationships between term of loan and interest rate

96

1 charged.

2 THE WITNESS: Right.

3 MR. NAPPI: Again, you're testifying as to
4 your experience?

5 THE WITNESS: That is correct. One of the
6 values of money is time.

7 BY MR. PORTNOY:

8 Q To sum up, sir, there was nothing unusual
9 about the term of the Whitewater loan, was there,
10 sir?

11 A No, sir.

12 MR. BELMAN: You mean the term in terms of
13 years?

14 MR. PORTNOY: Length.

15 THE WITNESS: I took it to be length of
16 maturity, nothing unusual.

17 BY MR. PORTNOY:

18 Q And there was nothing unusual about the
19 interest rate charged?

20 A No.

21 (Pause.)

22 Q Mr. Nappi showed you a document from

1 January 6th of 1987, which were file notes by Mr.

2 Proctor and the files notes indicated that Mr.

3 Proctor visited the Whitewater property.

4 MR. BELMAN: Just for the record, that's

5 the one that's got a D-149 on it.

6 MR. PORTNOY: It's also been Bates stamped

7 DKSJN 00626 and 68 through 69.

8 MR. NAPPI: In some permutations. Not the

9 one you're looking at.

10 MR. BELMAN: We don't have that version,

11 but it does have the D-149 and D-150 at the top right

12 hand of each page handwritten.

13 THE WITNESS: Okay.

14 BY MR. PORTNOY:

15 Q Was it uncommon for a loan officer to view

16 the collateral for a loan under his supervision?

17 A No, it was not. In fact, it would be a

18 very prudent practice for that loan officer to view

19 the property.

20 Q So you have no reason to believe that Mr.

21 Proctor's attempt to assess the value of this

22 property was unique?

1 A None whatsoever. That should have been

2 done in the course of normal banking business.

3 Q It doesn't indicate to you that the loan

4 was somehow specially problematic?

5 A Oh, no.

6 Q It might just indicate that the loan had

7 been on the books for a period of years and the

8 collateral needed to be looked at again?

9 A Right.

10 (Pause.)

11 Q Mr. Nappi also showed you a financial

12 statement with the Bates number in the upper right

13 hand corner D-169. It's dated March 24th, 1987.

14 I believe your counsel gave us a corrected

15 version of that document. But I'd like to draw your

16 attention only to the first page.

17 (Handing document to witness.)

18 THE WITNESS: Okay.

19 BY MR. PORTNOY:

20 Q Does the document indicate an annual

21 income?

22 A Yes, it indicates an income in the income

1 source section.

2 Q Is that \$155,000?

3 A There's a strikeover but that's what it
4 appears to be.

5 Q Is income an important consideration in
6 determining whether to approve a loan?

7 A Absolutely.

8 Q Would an annual income of \$155,000
9 normally have been sufficient to support a \$50,000
10 loan if that income wasn't pledged to other loans?

11 A Yes.

12 Q So irrespective of any questions about the
13 valuation of assets, it would be fair to conclude
14 that the income stated on that financial statement
15 would have been sufficient to support the Whitewater
16 loan in the amount of approximately \$50,000?

17 A That is correct.

18 MR. NAPPI: What about \$70,000?

19 THE WITNESS: Probably would have.

20 MR. NAPPI: I just asked because, correct
21 me if I'm wrong, the valuation on the asset side is
22 50 grand, 50,000, excuse me. Schedule H indicates I

100

1 believe 70,000 --

2 MR. BELMAN: We don't have a copy of the
3 second page here.

4 (Handing document to witness.)

5 BY MR. PORTNOY:

6 Q It would appear from this financial
7 statement, sir, that Governor and Mrs. Clinton
8 mistakenly believed the remaining principal on the
9 Whitewater loan to be \$70,000?

10 A It would appear that way.

11 MR. NAPPI: Why do you say mistakenly?

12 MR. PORTNOY: I believe we had testimony
13 that at this time, documents that at this time, the
14 actual principal was approximately \$53,000.

15 THE WITNESS: That's correct.

16 BY MR. PORTNOY:

17 Q In any event, if they misstated the amount
18 that they owed, they overstated it, they didn't
19 understate it?

20 A Correct.

21 MR. NAPPI: I guess technically you're not
22 in a position to say it was a mistake, it was just

1 misstated.

2 THE WITNESS: Correct.

3 BY MR. PORTNOY:

4 Q You testified earlier sir that a financial
5 statement would be, I believe you word was hopeful,
6 in deciding whether to renew the loan?

7 A That is correct.

8 Q At the time that the Whitewater loan was
9 renewed, you knew Mr. Clinton was the Governor,
10 right?

11 A Yes, sir.

12 Q And you knew Mrs. Clinton was a partner of
13 the Rose Law Firm?

14 A Right.

15 Q And the Rose Law Firm was a prominent,
16 prestigious firm?

17 A Right.

18 Q So you had a fair bit of information about
19 the Clintons at the time the Whitewater loan was
20 renewed, even in the absence of a financial
21 statement?

22 A That would be correct.

1 Q Putting aside any regulatory requirements
2 or internal bank rules, in your judgment as a banker,
3 would the information you had about the Clintons have
4 been sufficient to justify renewing the loan, even
5 without a financial statement?

6 A Not necessarily. It would have depended
7 upon the corporation's assets and income producing
8 ability. Just the general knowledge of who they were
9 would not be sufficient to renew the loan.

10 Q But you also had, at the time, information
11 about the corporation?

12 A That is correct.

13 Q And the corporation's ability to generate
14 income?

15 A That is correct.

16 Q And the loan was also collateralized?

17 A That is correct.

18 Q Would that whole package of information
19 have been sufficient in your judgment?

20 A Certainly.

21 Q Even in the absence of a financial
22 statement?

1 A Yes.

2 MR. NAPPI: Did you have an accurate
3 valuation of the property or current valuation of the
4 property, the underlying property that was subject to
5 the mortgage?

6 THE WITNESS: Based upon the document that
7 Mr. Proctor had looked at, I felt that we had a
8 reasonable valuation.

9 MR. NAPPI: How frequently did Mr. Proctor
10 prepare those documents?

11 THE WITNESS: I'm not sure. But we would
12 have looked at the valuation each time a renewal was
13 presented.

14 MR. NAPPI: But a financial statement is
15 helpful to provide the kind of information that goes
16 into the total mix?

17 THE WITNESS: Absolutely, you bet.

18 BY MR. PORTNOY:

19 Q You testified earlier, sir, that the
20 Whitewater loan, as of January 1987, received a 3
21 rating from the Loan Committee?

22 A Yes.

1 Q And you testified that a 3 rating
2 indicated normal risk?

3 A That's correct.

4 Q Did this mean that you fully expected the
5 loan to be repaid?

6 A Absolutely.

7 Q Did a large number of loans have a 3
8 rating?

9 A Yes. And I was trying to remember or
10 recall what the sub-standard, the percentage of the
11 portfolio that might have less than a 3 rating would
12 be a very small percentage.

13 Q So the vast majority of the portfolio had
14 a 3 rating or higher?

15 A That is correct.

16 Q Did many loans have a 1 rating?

17 A Not many.

18 Q Was a 3 rating the most common?

19 A That would be in the valuation, that's
20 right. Most of them would carry a 3 rating.

21 Q Sir, it's been alleged that a 3 rating
22 meant, and I quote, the bank should start preparing

1 for a default but still hope the loan perform.

2 Is that statement accurate?

3 A No.

4 Q A 3 rating did not mean that the bank was
5 preparing for a default in any way, did it?

6 A Absolutely not.

7 Q It did however mean that the bank still
8 hoped for repayment?

9 A As we do on all loans, as the great hope
10 (Laughter.)

11 MR. NAPPI: This isn't pro bono lending
12 (Laughter.)

13 (Pause.)

14 BY MR. PORTNOY:

15 Q Mr. Strange, earlier you were asked about
16 the request for a loan document waiver that Mr.
17 Proctor submitted.

18 A Yes.

19 Q If a loan lacks a financial statement, can
20 you book that loan, sir?

21 A Yes.

22 Q You can?

1 A Yes.

2 MR. NAPPI: What do you mean by book?

3 BY MR. PORTNOY:

4 Q Do you need to characterize the loan as
5 non-performing in the absence of a financial
6 statement?

7 A No.

8 Q Is a documentation waiver necessary in
9 order to treat a loan as performing without a
10 financial statement?

11 A No.

12 Q So there's no relationship?

13 A No. It only denotes that there are
14 documents that are absent from the normal loan file
15 that would be desirable possibly but not necessary.

16 Q You were asked earlier, sir, about Mr.
17 Vernon Dewey?

18 A Yes.

19 Q He's employed by the bank?

20 A He was.

21 Q What was his job?

22 A He was a junior loan officer.

1 Q Would a junior loan officer have been
2 assigned to manage the Whitewater loan?

3 A Probably not.

4 Q Do you know if Mr. Dewey was assigned to
5 manage the Whitewater loan?

6 A He was not. Mr. Proctor had that
7 responsibility.

8 Q Do you know if Mr. Dewey had any formal
9 responsibility with respect to the Whitewater loan?

10 A I don't believe that he did have. He
11 would have an opportunity, as a member of the Loan
12 Committee, to possibly see and review the loan from
13 time to time at renewal time.

14 Q But only as a member of the Loan
15 Committee?

16 A Right.

17 Q He was never assigned as a loan officer to
18 that loan so far as you know?

19 A Not so far as I know.

20 MR. NAPPI: Could I ask a question?

21 MR. PORTNOY: Do you mind if I just finish
22 this?

1 BY MR. PORTNOY:

2 Q Does correspondence between loan officers
3 and borrowers typically get placed in the loan file?

4 A Normally.

5 Q So if Mr. Dewey wrote a series of
6 correspondence to one or more of the borrowers on the
7 Whitewater loan, we would expect to find that
8 correspondence in the loan file?

9 A Yes.

10 Q And the absence of that correspondence
11 might suggest that it never existed?

12 A Very possibly.

13 MR. NAPPI: That's asking for a lot of
14 speculation. Why don't you ask the question, would
15 it be standard practice to place letters to borrowers
16 in the loan file?

17 MR. PORTNOY: I think I did ask that
18 question.

19 MR. NAPPI: Then why don't you ask, would
20 you normally expect to find them there?

21 THE WITNESS: Yes, to your question.

22 MR. NAPPI: And have you recently reviewed

1 the loan file, the credit file on the Whitewater
2 loan?

3 THE WITNESS: Not extensively no.

4 MR. NAPPI: Was there ever a time when you
5 found it to be absolutely complete and not deficient
6 of any information?

7 MR. PORTNOY: I'm going to object to that,
8 Doug. The witness can't possibly answer that
9 question.

10 MR. NAPPI: No, he can. He might be able
11 to.

12 MR. PORTNOY: He can tell you if there are
13 specific documents he's aware of that were missing.
14 He cannot tell you if there are documents missing of
15 which he's not aware.

16 MR. NAPPI: He can certainly tell us if
17 every document that they required as part of their
18 loan maintenance policies and procedures was in
19 there.

20 MR. BELMAN: We've talked about two
21 different kinds of things. I don't know where this
22 is going.

1 MR. NAPPI: I'll withdraw the question.

2 BY MR. PORTNOY:

3 Q It has been reported that Mr. Proctor,
4 quote, turned much of the Whitewater file over to
5 Vernon Dewey.

6 Do you have any reason to believe that's
7 true?

8 A None that I know of.

9 Q Has Mr. Proctor ever indicated to you that
10 that's true?

11 A No, he has not.

12 Q Has he indicated to you that it's not
13 true?

14 A I believe that would be a correct
15 statement. I don't know at any time that Mr. Dewey
16 had ever had any of the file turned over to him in a
17 context where he would be managing it or doing
18 anything in particular with it.

19 Q Are you aware of any responsibilities that
20 Mr. Dewey might have had with respect to the
21 Whitewater loan file that would have required him to
22 correspond with the borrowers directly?

1 A None that I know of.

2 MR. NAPPI: So you're not certain if he
3 ever corresponded with the borrowers?

4 THE WITNESS: I cannot be certain, no.
5 (Discussion off the record.)

6 THE WITNESS: To further clarify that, in
7 a recent phone conversation, he said he had not
8 corresponded with Hillary directly.

9 BY MR. PORTNOY:

10 Q Mr. Dewey told you that he had not
11 corresponded with the Clintons?

12 A That is correct.

13 Q Mr. Dewey is no longer employed by your
14 bank?

15 A That is correct.

16 Q Did he leave under pleasant circumstances?

17 A He resigned to take a position with
18 another bank in the community.

19 Q He wasn't asked to resign?

20 A No.

21 MR. PORTNOY: That's all I have.

22 Thank you.

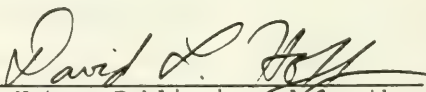
1 (Whereupon, at 4:10 p.m., Thursday, May 2,
2 1996, the taking of the deposition ceased.)
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5 -----
6 J. WESLEY STRANGE
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

113

I, DAVID L. HOFFMAN, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires JUNE 30, 2000

**DEPOSITION OF VERNON H. DEWEY
IN RE: S. RES. 120**

FRIDAY, MAY 3, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Deposition of VERNON H. DEWEY, called for examination pursuant to notice of deposition, at 5:20 p.m. in Room 534 of the Dirksen Senate Office Building, before DAVID L. HOFFMAN, a Notary Public within and for the District of Columbia, when were present:

DOUGLAS R. NAPPI, Esq.

Majority Counsel

JAMES S. PORTNOY, Esq.

Minority Associate Special Counsel

U.S. Senate

Committee on Banking, Housing, and Urban Affairs

534 Dirksen Building

Washington, DC 20510

On behalf of the Committee.

CONTENTS

WITNESS**EXAMINATION****Vernon H. Dewey**

by Mr. Nappi	5
by Mr. Portnoy	47
by Mr. Nappi	70
by Mr. Portnoy	71

P R O C E E D I N G S

(5:20 p.m.)

MR. NAPPI: On the record.

This deposition is being conducted pursuant to S. Res 120. This Resolution establishes a Special Committee administered by the Banking Committee to conduct an investigation involving Whitewater Development Corporation and other related matters.

Section 1(b) of Senate Resolution 120 authorizes investigation and public hearings into, amongst other things, the activities, investments and tax liability of Whitewater Development Corporation and is related to Whitewater Development Corporation and its officers, directors and shareholders, and shall be the focus of today's deposition.

You will likely be requested to testify next week and this deposition is in advance of that public hearing.

I will ask a series of questions. You will testify under oath. If you don't understand the question, let me know and I will rephrase. If you

4

need a break, let me know.

A stenographer will prepare a record of questions and answers. Depositions will be treated as Committee confidential until the commencement of the hearings.

Prior to the hearings, you will receive a letter from the Committee telling you that you may come to the Senate to review the deposition and make note of any corrections from transcription on an errata sheet.

If you are called to testify at a public hearing, you will be permitted to have a copy of your deposition prior to your testimony.

You may be represented by counsel. Objections to form of questions will be noted for the record. Counsel may object on grounds of privilege or relevance.

The Committee Chairman may rule on objections where the witness refuses to answer a question.

Will the reporter please swear in the witness?

1 Whereupon,

2 VERNON H. DEWEY

3 was called as a witness herein, and having been first
4 duly sworn, was examined and testified as follows:

5 EXAMINATION

6 BY MR. NAPPI:

7 Q Please state your name for the record.

8 A Vernon Hugh Dewey.

9

10

11 Q And your present business address?

12 A 650 South Street, Mountain Home, Arkansas.

13

14

15

16 Q Could you repeat again where you're
17 presently employed?

18 A Boatman's National Bank of North Central
19 Arkansas.

20 Q What position do you hold there?

21 A I'm a vice president in commercial
22 lending.

6

1 Q How long have you been employed there?

2 A Four years in March.

3 Q Where did you go to college?

4 A University of Central Arkansas.

5 Q When did you graduate?

6 A I was not graduated.

7 Q When did you leave school?

8 A In 1983.

9 Q Did you go to work after leaving school?

10 A At Citizens Bank at Flippin, Arkansas.

11 Q So you started at Citizens in 1983?

12 A In September 1983.

13 Q What position did you hold at that time?

14 A I started in bookkeeping.

15 Q What did your duties entail in
16 bookkeeping?

17 A There were a succession of things. I did
18 the insufficient checks entry on the computer, I did
19 proof items, things of that nature.

20 Q Were you promoted from bookkeeping or
21 assigned some other responsibility?

22 A I went to several. In fact, I held almost

1 every position in the bank. From there, I went to a
2 branch manager, then I went to that kind of entailed
3 the teller portion.

4 MR. PORTNOY: Could you give dates on
5 that, sir?

6 BY MR. NAPPI:

7 Q Approximate dates?

8 A Probably in 1984, I started going up. It
9 was kind of a manager's training position. Basically
10 I started learning all the positions of the bank.

11 I started I guess in the teller area in
12 '94.

13 Q '84 or '94?

14 A '84, I'm sorry.

15 It kind of all jumbles together but by
16 1985, I was actually in a loan officer position I
17 believe.

18 Q Were you ever an executive officer of the
19 bank?

20 A I was not an executive. When I left, I
21 was an assistant vice president.

22 Q When were you made an assistant vice

1 president?

2 A In 1990.

3 Q Between '85 and '90, you were a loan
4 officer?

5 A Yes.

6 Q Did you handle specific types of loans?

7 A I handled all types of loans. It was a
8 very small bank. I think the total loan portfolio
9 was \$10 million or less, and I handled, basically
10 when I left I was handling the majority of the loan
11 portfolio.

12 Q Did there come a time when you became
13 aware that Citizens Bank had a loan outstanding to
14 Whitewater Development Corporation?

15 A I knew that when I first started working.
16 That was a small bank.

17 Q How did you learn that?

18 A Well, I dealt with the books every day. I
19 saw journal entries and basically could see it on the
20 computer.

21 Q Did you know that Whitewater Development
22 Corporation was a corporation whose shareholders

1 included the Governor and his wife?

2 A Yes.

3 MR. PORTNOY: Did you know that from the
4 beginning or did there come a time when you learned
5 it?

6 THE WITNESS: I'm not certain. My memory
7 recalls that I just remember we had a loan to the
8 Governor on the books.

9 BY MR. NAPPI:

10 Q Were you ever responsible or did you ever
11 take part in the management of that loan?

12 A Yes.

13 Q Could you explain?

14 A I was trying to remember this.

15 When I first started, there was a bunch of
16 loans, when I first started as a loan officer in '85
17 approximately, a bunch of loans were transferred over
18 to me. The previous officer had left, and then I
19 went to his position, so of course his portfolio came
20 to me. And as I remember it, I had the Whitewater
21 loan in my portfolio.

22 This may or may not be true, but in my

10

1 mind, as I remember it, I had it in my portfolio.

2 But at some point in time, I had asked that it be
3 transferred over to Mr. Proctor's portfolio.

4 Q Do you recall when you requested the
5 transfer of that loan?

6 A No, I do not.

7 Q Who was the loan officer whose portfolio
8 you took over?

9 A Charlie Holt.

10 Q Could you spell that name?

11 A H-O-L-T, Charlie Holt.

12 Q And it's your recollection that Charlie
13 Holt was the loan officer responsible for the
14 Whitewater loan?

15 A From what I remember. I could be wrong,
16 but I remember. First, Charlie was from Little Rock.
17 He was from the Twin City Bank. He had transferred
18 out.

19 Q He transferred out of?

20 A Little Rock to Flippin.

21 Q Just to clarify when I say the Whitewater
22 loan, do you understand what I'm talking about?

1 A Yes.

2 Q The mortgage loan?

3 A Yes.

4 Q On the Whitewater Real Estate Development?

5 A Yes.

6 Q Because there also is another loan to

7 Whitewater, a \$20,000 loan. Do you recall that?

8 A No, I do not.

9 MR. PORTNOY: I'm sorry, I was confused by
10 something. You got your loan portfolio from Mr.
11 Holt.

12 THE WITNESS: I believe that's correct.

13 MR. PORTNOY: And Mr. Holt was employed by
14 Twin City Bank?

15 THE WITNESS: He worked for Twin City Bank
16 in Little Rock, and then transferred to Flippin.

17 MR. PORTNOY: Was this after Twin City
18 Bank took over?

19 THE WITNESS: Yes.

20 MR. PORTNOY: Was Mr. Holt at the bank in
21 Flippin before Twin City Bank purchased it?

22 THE WITNESS: No.

12

1 MR. PORTNOY: Mr. Holt didn't arrive at
2 Citizens Bank until after Twin City took over?

3 THE WITNESS: That's correct.

4 MR. PORTNOY: And you didn't get the loan
5 portfolio until he left?

6 THE WITNESS: That's correct.

7 MR. PORTNOY: Do you recall when he left?

8 THE WITNESS: I don't recall what dates
9 those were. All the dates I'm giving you are
10 approximate. I have no idea, I have no memory of the
11 dates. He was there the same time Terry Renaud was
12 there.

13 MR. PORTNOY: Just to be clear, Mr. Holt
14 was not at the bank until after the Twin City
15 acquisition?

16 THE WITNESS: That's correct.

17 BY MR. NAPPI:

18 Q I guess you got there right before the
19 Twin City acquisition?

20 A Yes.

21 Q When did you become a member of the
22 Officers Loan Committee?

1 A Well, I assume it was when I got my loan
2 portfolio.

3 Q But you're not certain?

4 A No, I'm not. It's a very small bank.

5 Q Why did you request to transfer the
6 Whitewater file?

7 A Well, as I remember it, and I could be
8 wrong, as I remember it, of course, we're graded
9 against our portfolio in raises and percentages of
10 past dues, and that was a large loan that was going
11 against my numbers.

12 I want to be clear that I clarify that
13 this is how I remember it. This has been ten years
14 ago. And as I remember it, it was in my portfolio.
15 I don't even remember if it was. When the Grand Jury
16 showed me documents, Ron's name was on all those
17 documents, Ron Proctor's name was on all those
18 documents.

19 But in my memory, I remember servicing it.
20 I had remembered sending letters to them for
21 financial information and then the document was
22 showed that all correspondence went from Ron Proctor.

1 So it could even be possible that I did not even have
2 it in my portfolio. I just serviced the past due
3 portion of it.

4 Q I'm not a banker. Could you?

5 A The past due portion of it would be
6 collection, collecting the loan, collecting the
7 payments, making sure they're applied to the loan and
8 making sure that it's not on a delinquency list, and
9 then monitoring the financial statement exceptions,
10 any exceptions in the file to documentation that
11 weren't in there; taxes, things of that nature.

12 Q So more of an operational nuts and bolts
13 management of the credit file?

14 A Yes.

15 Q Rather than contact?

16 A Contact, yes.

17 Q Were those the kind of responsibilities
18 that you had when you joined the bank as a
19 bookkeeper?

20 A No, I didn't have those responsibilities
21 until I became a loan officer.

22 Q Are those typically the kind of

1 responsibilities that junior loan officers take care
2 of?

3 A Yes.

4 Q So you would have become fairly well --
5 Let me rephrase.

6 You would have become familiarized with
7 the credit file?

8 A Yes.

9 Q Was it your experience that it was
10 frequently deficient on certain items that the bank
11 would in the ordinary course request?

12 A The only thing that I am familiar with
13 that I remember is financial statements for Bill and
14 Hillary Clinton.

15 Q That sometimes they did not have financial
16 statements?

17 A Yes.

18 Q I'd like to show you a record, it's
19 entitled "Real Estate Appraisal Certificate," and
20 it's dated August 2nd, 1978.

21 (Handing document to witness.)

22 BY MR. NAPPI:

1 Q Do you recall ever seeing this document?

2 A No, sir.

3 Q Fair enough.

4 The next record I'd like to show you is a
5 handwritten table, it's been serially numbered D-212
6 in handwriting.

7 (Handing document to witness.)

8 BY MR. NAPPI:

9 Q Do you recognize this record?

10 A I recognize Ron Proctor's handwriting.
11 No, I don't.

12 (Pause.)

13 Q I'd like to show you a record that has
14 been serially numbered D-149 through D-150, again in
15 handwriting. It's says "File Notes Whitewater
16 Development Incorporated Loan 5885." It's dated
17 January 6th, 1987.

18 (Handing document to witness.)

19 THE WITNESS: No.

20 BY MR. NAPPI:

21 Q You don't recognize that record?

22 A No.

1 MR. NAPPI: Let's go off the record for a
2 minute.

3 (Discussion off the record.)

4 MR. NAPPI: Let's go back on the record.

5 BY MR. NAPPI:

6 Q I'd like to show you yet another record
7 that is entitled "First Ozark National Bank Officers
8 Loan Committee Minutes," January 1987, and it lists a
9 number of members present.

10 (Handing document to witness.)

11 BY MR. NAPPI:

12 Q Do you see your name listed as a member
13 present?

14 A Yes, I do.

15 Q Could you take a second and review this
16 record?

17 (Pause.)

18 A Okay.

19 Q Do you recall seeing this record before?

20 A No.

21 Q Okay.

22 A It's a familiar format. I don't remember

1 the specific record.

2 Q Do you remember Ron Proctor, or do you
3 remember a time at the end of 1986 when Ron Proctor
4 went out to examine the Whitewater property?

5 A I can vaguely recall that, yes.

6 Q Did you discuss with him his purposes for
7 going out there?

8 A I don't recall.

9 Q Do you recall any conversations about what
10 he saw when he went out there?

11 A No, I do not.

12 Q Any conversations about the value he
13 placed on the property per acre?

14 A No, I do not.

15 (Pause.)

16 Q I would direct your attention to the
17 second page of this record. There's a discussion or
18 write-up of the Whitewater Development Company loan
19 and a discussion of the collateral.

20 It says that it's collateralized by
21 acreage that is valued at \$750.

22 A An acre, yes.

1 Q You're right, an acre.

2 Do you recall any conversation regarding
3 this valuation?

4 A No, I do not.

5 Q Do you recall there being any concern
6 about the per acre value of this property having
7 declined?

8 A No, I do not remember any discussion
9 regarding this.

10 Q Do you recall any discussion --

11 A I don't know how far I need to go here,
12 but as I told you, I'm from Flippin. I know the
13 area. I personally knew Whitewater where it was and
14 what kind of property it was, and I think everyone on
15 the Committee knew what type of property it was.

16 Q When you say type of property, what do you
17 mean?

18 A Well, there were some mobile homes down
19 there, there was some shacks built down there, a
20 couple of nice homes, so it was, I guess, known that
21 it was not a very desirable place to purchase
22 property.

20

1 Q When did it become that way?

2 A I don't know a specific time when it
3 became that way.

4 Q Was it that way before you joined Citizens
5 Bank?

6 A I can't recall, I don't know.

7 Q Did you ever have discussions with anyone
8 at the bank about the desirability of this parcel of
9 land, the Whitewater parcel?

10 A Yes, it was discussed what type of
11 property it was, and it was discussed whether that
12 property would sell.

13 Q Do you recall who you discussed it with?

14 A I don't recall specifically but it would
15 have had to have been Ron Proctor or Wes Strange.

16 Q Why would it have to have been them?

17 A We were the only three people at the bank,
18 lenders at the bank.

19 Q Do you recall, in the time that you worked
20 on the paper work on the credit file, ever seeing any
21 appraisals or valuations of the land?

22 (Pause.)

1 A I don't recall seeing an official
2 appraisal in the file. I don't recall any appraisal
3 in the file.

4 Q Would you say that the \$750 an acre
5 estimate in there in the document you have before
6 you, excuse me, is an accurate estimate of the value
7 of that land at the time at the beginning of 1987, if
8 you feel like you can offer an opinion?

9 A I would say it would be fair, slightly
10 high maybe.

11 Q But within the realms of reason?

12 A Yes.

13 Q The next record I'd like to show you is
14 entitled "Financial Statement William J. Clinton and
15 Hillary Rodham Clinton." My copy contains the Bates
16 stamp number CBFO-352.

17 (Handing document to witness.)

18 MR. PORTNOY: Could you state the date?

19 MR. NAPPI: 12/17/84.

20 (Pause.)

21 BY MR. NAPPI:

22 Q Do you recall ever seeing this record?

1 A No, I don't.

2 Q Do you recall, would you say that this
3 financial statement is a detailed financial
4 statement?

5 A No, I wouldn't.

6 Q Was it typical of the types of financial
7 statements that you saw in the Whitewater loan file?

8 A Yes.

9 Q So generally they were not detailed?

10 A Yes, I do remember that.

11 Q In your experience in banking, have you
12 found financial statements to be useful records to
13 have for a borrower?

14 A Very useful.

15 Q Why is that?

16 A You base your decision on financial
17 information they give you.

18 Q And as far as good underwriting practice
19 on an on-going basis in managing a loan, is it
20 helpful to have financial statements?

21 A Yes, it's our policy. It's a normal
22 policy to procure them on an annual basis. To look

1 at them and see if anything is deteriorating
2 financially on an individual statement.

3 MR. PORTNOY: For all loans, for certain
4 kinds of loans?

5 THE WITNESS: I'm speaking about
6 commercial loans. I don't know how I can distinguish
7 between a commercial consumer loan. A consumer loan
8 is basically made to an individual secured by
9 personal property. A commercial loan is normally
10 loans made on real estate, stocks, bonds, to business
11 people.

12 So on commercial loans, we request an
13 annual financial statement. That's been customary
14 practice since I've been there to request an annual
15 statement.

16 BY MR. NAPPI:

17 Q And it's done to assist in the oversight
18 of the loan?

19 A Yes.

20 Q It's more than just housekeeping?

21 A Yes. Loans are risk rated in the bank for
22 loss. Different banks risk different ways.

1 Typically A being the best, the lower in the
2 alphabetical scale being worse. If someone brings in
3 some financial information and shows a deterioration,
4 we normally call those people, consult with them, and
5 if we feel there's a problem, we downgrade the loan
6 and assess the risk in it and reserve in the loan
7 loss.

8 Q Was it your experience or do you recall
9 the Whitewater loan's risk rating ever changing while
10 you were at the bank?

11 A I don't remember it changing. I know that
12 it was always, I don't even remember what their
13 categories were, but it was in the lower category of
14 their risk rating. I think they did one, two, three,
15 four, and maybe theirs was a three.

16 Q Maybe this will help refresh your
17 recollection as to that point.

18 According to the minutes I just showed
19 you, it was risk rated three. However, I'm looking
20 at an incomplete commercial loan application, but the
21 form shows that they actually had five ratings, so
22 three would be the middle rating.

1 (Handing document to witness.)

2 THE WITNESS: I assume that's correct.

3 MR. PORTNOY: Perhaps in fairness, we
4 should also indicate that we've had testimony earlier
5 that there were in fact six risk ratings.

6 MR. NAPPI: I don't recall what the
7 testimony was. Let's not get into that.

8 (Pause.)

9 BY MR. NAPPI:

10 Q Do you know a gentleman named Ed Penick?

11 A Yes, I do.

12 Q How do you know Mr. Penick?

13 A He was president of Twin City Bank and
14 First Ozark.

15 Q First Ozark was associated with Twin City
16 Bank?

17 A Yes, we were a subsidiary.

18 Q Did Ed Penick have a role on the First
19 Ozark Board of Directors?

20 A Yes, he did.

21 Q What was that role?

22 A I don't recall.

26

1 Q But he was a member of the Board of
2 Directors?

3 A As I recall, he was.

4 Q Do you know an individual named Terry
5 Renaud?

6 A Yes, I do.

7 Q How do you know Terry Renaud?

8 A He was Chairman and CEO of Twin City Bank.

9 Q Was he also on the board at First Ozark?

10 A Yes, he was.

11 Q Did you know Susan Sisk?

12 A Yes, I do.

13 Q Who was Susan Sisk?

14 A She was our senior credit officer from
15 Twin City Bank.

16 Q What does that mean?

17 A That means in the beginning, she drove up
18 every Thursday or Friday -- I think it was Thursday --
19 to our loan committee.

20 Q At the beginning? You mean?

21 A When Twin City Bank first purchased us.
22 And any loan request over X dollars, I don't remember

1 what those dollars were, had to go through her.

2 Q Did that practice continue or did it
3 change in any way?

4 A When I left First Ozark it had changed.
5 She was no longer required to sign off on any loan
6 requests.

7 Q Did she also have to sign off on renewals?

8 A No. If it was over a certain dollar
9 amount, she did. I don't know what that dollar
10 amount was.

11 Q So renewals and loans over a certain
12 threshold?

13 A Yes.

14 Q Do you recall when she stopped actually
15 participating in the loan officers meetings?

16 A No, I do not. It had to be like late '89
17 or early '90, I would imagine.

18 Q Do you know an individual named Margaret
19 Davenport?

20 A Yes, I do.

21 Q How do you know her?

22 A She was senior vice president and cashier

1 at Twin City Bank.

2 Q Did she have a role in the operation of
3 First Ozark?

4 A No, not that I'm aware of. That was Ken
5 Pennebaker, but he's dead now.

6 Q Could you spell that name?

7 A P-E-N-N-E-B-A-K-E-R.

8 Q Do you recall any discussions regarding
9 the Whitewater loan that involved Mr. Penick?

10 A Yes.

11 Q Could you tell us about them?

12 A I don't remember specifics, but I know
13 that Ed was there, Ed Penick. Susan Sisk was there.
14 Ron was there. I'm not sure Wes was. And we were
15 discussing the financial statement on the Clintons.

16 And Ed said that Margaret was personal
17 friends of Hillary's and Susan said something to the
18 effect that yes, she thought she was. Ed said that
19 he would get Margaret to call Hillary and see if we
20 could get a financial statement.

21 Q Do you recall what financial statement, or
22 when this occurred?

1 A No, I don't. This is a memory in my head.

2 Q Do you know if Mr. Penick asked Davenport
3 to get a financial statement?

4 A No, I don't.

5 Q Do you recall if the financial statement
6 was obtained?

7 A I do not recall getting a financial
8 statement.

9 Q Is that the only recollection you have of
10 a conversation regarding a Whitewater loan with
11 Penick?

12 A With Mr. Penick, yes.

13 MR. PORTNOY: Can I ask him to clarify his
14 last answer?

15 Did you testify that you did not receive a
16 financial statement from the Clintons, or that you do
17 not recall whether you received a financial
18 statement?

19 THE WITNESS: I do not recall whether we
20 received one or not.

21 MR. PORTNOY: Thank you.

22 BY MR. NAPPI:

1 Q You just indicated that's the only
2 conversation you recall with Mr. Penick.

3 Do you recall conversations with other
4 persons regarding the Whitewater loan?

5 A Well, I recall conversations with Ron and
6 Wes. This loan was discussed quite often at the
7 bank. It was a nuisance at the bank. It was
8 continuously past due at the bank. It was
9 continuously pulled by auditors to audit. And it was
10 continuously noted that financial information was
11 lacking. And we discussed periodically what to do
12 with the loan. I guess none of us liked it. It was
13 there at the bank because of these things because we
14 were continuously raked over the coals.

15 Q Raked over the coals by?

16 A I guess raked over the coals may not be
17 the right word, but the officer, the Comptroller of
18 the Currency auditors were always on us about not
19 having proper documentation in the file.

20 Q With this loan more so than other loans?

21 A That I can't answer. I remember this one
22 particularly because it stands out because of the

1 borrowers.

2 Q Why did you feel like you had to live with
3 the loan?

4 A From a personal standpoint, I felt like we
5 had to live with it because honestly it was the
6 Governor of the State of Arkansas, it was an
7 influential man. I don't think anyone ever thought
8 the loan would go bad necessarily. I think everyone
9 felt the loan eventually would be paid off, but it
10 was the hassle of having to monitor, collect, and the
11 unwillingness of the borrowers to give us
12 information.

13 Q Which borrowers were unwilling to give
14 information?

15 A The Clintons.

16 Q What about the McDougals?

17 A As I recall, they were pretty good about
18 giving financial information when requested. I don't
19 remember what they gave us or when they gave it or
20 how they gave it. I remember when we, the bank,
21 requested it, it was normally sent, from my
22 recollection.

32

1 Q Did Wes Strange or Ron Proctor ever
2 express dissatisfaction with having to live with this
3 loan, as you said?

4 A I don't recall.

5 Q You say that the Clintons were unwilling
6 to provide financial statements. Is that based on
7 personal experience in trying to obtain financial
8 statements from them?

9 A I guess that's more of an opinion because
10 I never dealt with the Clintons, and I don't know if
11 they were willing or not to give the information.
12 All I remember is that it was never forthcoming when
13 requested.

14 Q Have you ever met Bill Clinton?

15 A Yes, I have.

16 Q Have you ever met Hillary Rodham Clinton?

17 A No, I have not.

18 Q Do you recall where you met Bill Clinton?

19 A I've met him twice. I met him at the
20 University of Central Arkansas when he was
21 campaigning. I guess it was his first time for
22 governor, I'm not sure. He was campaigning in the

1 student union. My fraternity helped host the event.

2 And then I was in the Leadership Institute
3 with Arkansas Power & Light and we had lunch at the
4 Governor's mansion and I talked to Mr. Clinton.

5 Q Do you recall when that was?

6 A I was going to look at that. I've got a
7 diploma thing on my wall in my office with the dates
8 on it. I don't know what that is.

9 Q When you met him at the Governor's
10 mansion, you didn't discuss the Whitewater loan?

11 A No.

12 We talked about my father-in-law.

13 Q And you've never been in written
14 correspondence with either of the Clintons?

15 A I had recalled that I was. Before I went
16 before the Grand Jury, they produced documents that
17 would suggest Ron had and I never had, so obviously I
18 did not.

19 Q So was your recollection refreshed that
20 you did not correspond with them?

21 A That's correct.

22 (Pause.)

1 EVENING SESSION

2 (6:00 p.m.)

3 BY MR. NAPPI:

4 Q The next record I'd like to show you is a
5 March 24, 1987 financial statement of Hillary and
6 Bill Clinton.

7 (Handing document to witness.)

8 (Pause.)

9 BY MR. NAPPI:

10 Q Do you recall ever seeing this record?

11 A No, I don't.

12 Q The next record is Bates stamped DKS-
13 029262. It's one page of handwritten notes. It
14 appears to have been on personalized stationery with
15 the name Hillary Rodham Clinton across the top.

16 (Handing document to witness.)

17 BY MR. NAPPI:

18 Q I'm not going to ask you if you recognize
19 this document, but could you focus on the substance
20 of the information that record contains.

21 A Yes. Do you want me to elaborate on it?
22 Or do you want to ask me questions about it?

1 Q If you can elaborate on it, go ahead.

2 A Current notes, I assume she means payable,
3 \$1100. Value of property \$66,000, \$1500 an acre,
4 sale value foreclosure on June \$300 an acre.

5 Maybe you should ask me questions about
6 it.

7 Q All right.

8 Do you recall ever collecting that
9 information for anyone?

10 A I don't understand the question.

11 Q The information that's contained on that
12 note, do you recall ever being tasked by anyone to
13 look at the Whitewater loan file and collecting that
14 particular information?

15 A No, I do not.

16 Q I'd ask you to look at another handwritten
17 note, Bates stamped DKRT-700294.

18 Just take a moment to examine the
19 information there.

20 (Pause.)

21 A Okay.

22 Q Same question. Do you ever recall being

1 tasked to collect information from the Whitewater
2 loan file to that effect?

3 A No, I do not.

4 Q Okay.

5 Do you recall anyone ever asking you to
6 recall or obtain some information from the Whitewater
7 loan file other than in connection with like one
8 renewal?

9 A I don't remember the specifics. I
10 remember the file, I remember working on it, but I
11 don't remember the specifics.

12 MR. PORTNOY: Sir, just to be clear, Mr.
13 Nappi's question was whether you recall any one
14 specifically asking you to go get them information
15 from the file. That's a different question.

16 THE WITNESS: From what I answered.

17 (Pause.)

18 No, I do not.

19 MR. PORTNOY: You don't recall that
20 happening, or you recall that it did not happen?

21 THE WITNESS: I don't recall anyone asking
22 me to gather information from the file.

1 MR. PORTNOY: Okay.
2 BY MR. NAPPI:
3 Q Do you recall Susan Sisk ever asking you
4 questions regarding the Whitewater file?
5 A No, I do not recall.
6 (Pause.)
7 Q Do you know Chris and Rosalie Wade?
8 A Yes, I do.
9 Q How do you know them?
10 A Personally. He owns Ozark Reality in
11 Flippin and Rosalie worked there with him and was
12 also at the school, was a director at the bank
13 previous to me.
14 (Discussion off the record.)
15 BY MR. NAPPI:
16 Q When you were employed at First Ozark, did
17 you ever have any dealings with Chris or Rosalie
18 Wade?
19 A Yes, I did.
20 Q What were the nature of those dealings
21 with respect to Whitewater?
22 A Rosalie handled the escrow payments that

1 were paid on the Whitewater property. She collected
2 them, and then deposited them in the bank. I would
3 call Rosalie when the loan was delinquent for
4 payments.
5 Basically my contact with Chris and
6 Rosalie Wade was with Rosalie concerning Whitewater,
7 not Chris.
8 Q Did she ever tell you the source of the
9 funds?
10 A No, she didn't.
11 Q I'd like to show you a record now that's
12 Bates stamped DKRT-101152. It's a check drawn on
13 Whitewater Development Corporation Account at Madison
14 Guaranty in the amount of \$25,000.
15 (Handing document to witness.)
16 BY MR. NAPPI:
17 Q It's dated March 22nd, 1985.
18 Do you recall any conversations with
19 Rosalie Wade where she expressed to you or told you
20 that she received a payment of this size from
21 Whitewater?
22 A No, I do not.

1 Q Do you know the McDougals?

2 A No, I do not.

3 (Pause.)

4 Q Could you tell me again when you left, by
5 then was it Mercantile?

6 A No, it was still First Ozark.

7 January 1991.

8 Q And you went directly to work for
9 Boatman's?

10 A No. I went to bank at Yellville one year.

11 Q Then you went to Boatman's?

12 A Yes.

13 (Discussion off the record.)

14 MR. NAPPI: Let's go back on the record.

15 (Pause.)

16 BY MR. NAPPI:

17 Q I have another record I'd like you to take
18 a look at. It's an April 12, 1988 letter from First
19 Ozark National Bank signed by J.W. Strange. It's
20 directed to Hillary Clinton.

21 (Handing document to witness.)

22 BY MR. NAPPI:

1 Q It's a covering letter, and then there's
2 some summaries of balances on escrows attached to it.

3 (Pause.)

4 Do you recall ever seeing this letter?

5 A No.

6 Q Do you recall being asked to compile the
7 information regarding the escrow accounts that's
8 attached to this?

9 A No.

10 Q Do you recall when the bank switched
11 charters from state to national?

12 A Yes.

13 Q At that point, your primary regulator
14 would have been the OCC rather than the Arkansas
15 State Banking Board, is that correct?

16 A Could you repeat that?

17 Q When you switched charters, your regulator
18 became the Comptroller of the Currency?

19 A That's correct.

20 Q Do you recall there being concern at the
21 bank about the heightened scrutiny of the Comptroller
22 of the Currency's examinations?

1 A Yes.

2 Q Was that a generally-held concern?

3 Did Wes Strange and Ron Proctor also seem
4 to be concerned?

5 A Yes.

6 Q Do you recall the Whitewater loan being
7 the only loan that the bank held that had such
8 irregular documentation?

9 MR. PORTNOY: I'd like to object and ask
10 you to define what you mean by such irregular
11 documentation.

12 MR. NAPPI: I think I mean the same thing
13 you meant yesterday when you asked that question.

14 MR. PORTNOY: I think I actually stated it
15 a little differently. My point would be that the
16 only documentational irregularity that Mr. Dewey has
17 testified to or I believe recalls is the absence of
18 financial statements at certain times.

19 MR. NAPPI: You're right.

20 I will ask this question.

21 BY MR. NAPPI:

22 Q In your experience of reviewing the loan

42

1 files, did you find the Whitewater loan file to be
2 better documented than other files or worse
3 documented?

4 MR. PORTNOY: Do you mean in specific
5 files, in all files on average?

6 BY MR. NAPPI:

7 Q Can you think of another commercial real
8 estate loan that the bank at Flippin had of a similar
9 amount?

10 This would have been a large loan for the
11 bank of Flippin?

12 A That's correct, it would have.

13 Q For a large commercial real estate loan,
14 was this a poorly documented loan file?

15 MR. PORTNOY: You've characterized it as a
16 large loan. I just want to be clear that you're
17 speaking of the renewal amount, rather than the
18 original amount, because that's the period in which
19 Mr. Dewey was familiar with the loan, so we're
20 talking about that \$50,000 or \$53,000.

21 MR. NAPPI: At some point. At other
22 points, it was \$100,000.

1 Well, the loan paid down over time.

2 THE WITNESS: I remember it around 100,000
3 portion. When I left, it was nearer 50,000, as I
4 recall. I'm not sure if it was or not.

5 BY MR. NAPPI:

6 Q We're not asking you from memory to
7 document the pay down, but my question, for a
8 commercial real estate loan of this size.

9 A As I recall, this is the only loan in the
10 bank that I can remember having such poor
11 documentation. By documentation, I'm talking
12 financial information.

13 Q By that, you mean personal financial
14 statements when you say financial information?

15 A Yes.

16 Can I also state that I feel that it was
17 not the only loan in the bank lacking financial
18 information but this loan sticks out in my mind
19 because of who the borrowers were.

20 MR. PORTNOY: When you say this is the
21 only loan you recall, what you're saying is not that
22 it's the only loan the bank had with a similar

1 documentation but rather the only loan that after ten
2 or more years you can recall.

3 THE WITNESS: That's correct.

4 BY MR. NAPPI:

5 Q That is what you're saying. It is the
6 only poorly documented loan file you recall?

7 A That's a fair statement.

8 Q So you're not saying this was the worst
9 documented, it was just the only one that you can
10 remember at this point in time?

11 A What he said, yes.

12 Q He being Mr. Portnoy?

13 A Yes.

14 Q Did you ever have any discussions with
15 Rosalie Wade about the Whitewater Development deal?

16 A The only discussions I had with her were
17 trying to collect the loan.

18 Q Did she ever tell you who she had to deal
19 with with respect to the Whitewater loan?

20 A No.

21 Q Did I ask this. Do you remember Terry
22 Renaud ever making inquiries about the Whitewater

1 loan?

2 A You did not ask it, but I do not remember
3 that he inquired about it.

4 Q And you don't recall anyone at the bank
5 ever saying Margaret Davenport had called requesting
6 information on Whitewater?

7 A No, I do not.

8 Q You don't recall anyone at the bank, any
9 of the other officers saying they got a call from
10 anyone at Twin City Bank regarding the Whitewater
11 loan? Do you see what I'm getting at?

12 A Yes.

13 MR. PORTNOY: Yes, you see what he's
14 getting at?

15 THE WITNESS: Yes, not that I remember. I
16 do not.

17 MR. NAPPI: I don't think I have any
18 further questions.

19 (Recess.)

20 MR. NAPPI: We are back on the record. I
21 actually have two more questions before I hand it
22 over to Mr. Portnoy.

1 BY MR. NAPPI:

2 Q Do you recall a December '86 board meeting
3 at First Ozark where the need to get a loan renewal
4 for the Whitewater loan was discussed?

5 A Unless I specifically had a loan to
6 present to the board, I would have not been at that
7 meeting.

8 Q Do you recall ever being at a meeting the
9 end of 1986 in December of 1986, where you raised
10 concerns about the lack of financial disclosures?

11 A I remember discussing it in a loan
12 committee, but I doubt very seriously if I would have
13 discussed it in a directors meeting.

14 Q Who was at the loan committee meeting?

15 A It would have been the same individuals;
16 Ron, Wes, myself, Barbara, Susan might have been.

17 Q Susan Sisk might have. Okay.

18 The other question I have is with respect
19 to Susan Sisk. Did she exercise veto power over the
20 officers loan committee decisions?

21 A Yes.

22 Q By that, I mean if the officers had

1 suggested that a loan be renewed, she could override
2 them and say the loan will not be renewed?

3 A Yes.

4 Q Within a certain dollar limit?

5 A As I recall, Susan had ultimate veto on
6 any loan presented to the loan committee to decline
7 her approval. And as I remember, it was not a
8 majority vote. One vote killed the deal.

9 Q Beyond the majority vote, Susan Sisk's
10 consent, or they would not renew?

11 A Yes.

12 Q And if the officers would decline the
13 renewal, she could override with respect to that and
14 say, no, I think we should renew this loan?

15 A Yes. If we did not like her decision, we
16 could take it to the full board.

17 MR. NAPPI: Fair enough. I have no
18 further questions.

19 EXAMINATION

20 BY MR. PORTNOY:

21 Q Sir, to your recollection, did Susan Sisk
22 ever override a board decision not to grant a loan?

1 In other words, did the board ever decide
2 not to grant a loan, but Susan Sisk instructed that
3 you would?

4 A Can we clarify the board.

5 MR. NAPPI: Loan committee, the officers
6 loan committee.

7 THE WITNESS: I think we are talking two
8 separate committees. There is an officers loan
9 committee that Susan Sisk reigned over, then there's
10 the board of directors meeting.

11 That loan committee meeting met every
12 Thursday, I believe, every Thursday, and Susan drove
13 up from Little Rock.

14 Then there was also a once-a-month
15 directors meeting with all the board of directors and
16 then the individuals from Little Rock would come up,
17 the individuals from Little Rock being Terry Renaud,
18 Kim Baker, Susan Sisk, Ed Penick and we met.

19 Susan met on Thursdays. If she did not
20 want us to do a loan, she could tell us not to do
21 that loan or renew that loan.

22 If we did not like her decision, we could

1 appeal that decision to the full board of directors.

2 BY MR. PORTNOY:

3 Q Let me ask you about the reverse. I'm not
4 concerned about the situations where the loan
5 officers at First Ozark decided that it would be
6 prudent to grant a loan, and Mrs. Sisk said that the
7 loan should not be granted.

8 I'm asking about the reverse situation.

9 Do you ever recall a case in which the
10 loan officers at First Ozark decided that it would be
11 imprudent to grant a loan, and Mrs. Sisk insisted
12 that the loan be granted?

13 (Pause.)

14 A No, I do not.

15 MR. NAPPI: You do not recall
16 specifically?

17 THE WITNESS: I do not recall
18 specifically. I do not recall that happening.

19 MR. PORTNOY: That's a different question,
20 sir, and I want to be clear.

21 BY MR. PORTNOY:

22 Q To the best of your recollection, that

50

1 never happened?

2 A Yes.

3 Q Also, just to clarify, sir, it's your
4 recollection that Mrs. Sisk's approval was required
5 for any loan, irrespective of amount?

6 A That's not how I recall it.

7 Q How do you recall it?

8 A I recall it that it was dollar specific
9 and Susan had veto power over X dollar amount.

10 Q We've had testimony, sir, that that dollar
11 amount was approximately \$100,000 or \$150,000 in 1986
12 or '87.

13 Do you have a recollection as to how much
14 the threshold might have been when Mrs. Sisk's
15 approval was required?

16 A She had to approve every loan. She was in
17 the loan committee every Thursday. She had to
18 approve the loan.

19 MR. NAPPI: Maybe I can clarify this.

20 Is what you're testifying, are you
21 testifying that only certain loans over certain
22 thresholds had to go to the loan committee, a certain

1 dollar threshold?

2 THE WITNESS: Each officer had a specific
3 lending authority. If it exceeded the officer's
4 lending authority, it had to go to the loan
5 committee.

6 MR. NAPPI: But once it was in the loan
7 committee, Susan Sisk had veto power?

8 THE WITNESS: That's correct.

9 BY MR. PORTNOY:

10 Q I believe you testified that loan
11 committee decisions had to be unanimous? That a
12 single negative vote would prevent the loans from
13 being approved?

14 A That's correct.

15 Q So every member of the loan committee
16 effectively had veto authority?

17 A That's correct.

18 Q Mrs. Sisk's authority in that regard
19 wasn't any different from anyone else's?

20 A That's correct.

21 Q She didn't function as essentially a
22 separate review committee after the loan committee,

52

1 she was just a member of the loan committee?

2 A That's correct.

3 MR. NAPPI: So any action took a unanimous
4 vote. All members of the loan committee had to agree
5 to approve or disapprove a loan?

6 THE WITNESS: As I recall it, yes it did.

7 BY MR. PORTNOY:

8 Q Did you ever vote to approve the
9 Whitewater loan?

10 A Yes, I did.

11 Q Did anybody tell you you had to do so?

12 A No, they did not.

13 Q So your vote was based on your own
14 judgment about the loan?

15 A Yes.

16 Q And your judgment apparently was that the
17 loan should be approved?

18 A Yes.

19 Q You testified you took over Charlie Holt's
20 loan portfolio when he left what was then First
21 Ozark?

22 A Yes.

1 Q Do you recall how long he was employed at
2 First Ozark approximately?

3 A You'll have to help me with the date.
4 When Twin City Bank purchased us.

5 MR. NAPPI: I believe it was in early '84,
6 but I'm not looking at anything right now. I'm just
7 going off my recollection.

8 THE WITNESS: No. I don't know any
9 specific dates.

10 BY MR. PORTNOY:

11 Q I'm trying to get a sense for when you
12 might have taken over his portfolio.

13 A I don't know when he left specifically.
14 It had been 1986.

15 Q You indicated that you were a loan officer
16 by 1985.

17 A Let me clarify something. I said I was
18 not specific on my dates.

19 Q I understand. I'm just trying to clarify.

20 A Now that all this has come out, I'll tell
21 you how I can remember this.

22 I went on a cruise in February 1986.

1 Charlie Holt was still at the bank at that time. So
2 Charlie Holt had to leave between February and
3 September, no because he was an usher at my wedding.
4 We got married September 20th, and he left after
5 that. He had to leave in the fall of 1986.

6 I was a loan officer at that time, and I
7 inherited his.

8 Q So you had a loan portfolio before you
9 inherited Mr. Holt's loans?

10 A Yes.

11 Q At that time, you were a fairly junior
12 officer?

13 A Very junior, yes.

14 Q And I believe you testified that the
15 Whitewater loan was among the larger loans in the
16 bank?

17 A Yes.

18 Q Is it likely that a junior loan officer
19 would have been assigned one of the largest loans in
20 the bank?

21 A No.

22 (Pause.)

1 Q Sir, after several hours of conversation
2 about this subject, and a fair bit of reflection, is
3 it still your view that you were a loan officer on
4 the Whitewater loan at any time?

5 A Could you repeat that question?

6 THE WITNESS: Can we go off the record?

7 MR. PORTNOY: Sure.

8 (Discussion off the record.)

9 BY MR. PORTNOY:

10 Q Sir, have you ever been shown a document
11 from the Whitewater loan file that you prepared?

12 A No, I have not.

13 Q Are you aware of any such document?

14 A No, I am not.

15 Q In light of the absence of documents
16 prepared by you in the Whitewater loan file, and
17 based on these hours of discussion and reflection, is
18 it your view that you were or were not the loan
19 officer assigned to the Whitewater file, the
20 Whitewater loan file?

21 A After the testimony, after this, no, I was
22 not.

1 MR. NAPPI: Is it possible you may have
2 had some responsibility with respect to this file?

3 THE WITNESS: Yes, I did.

4 BY MR. PORTNOY:

5 Q But the loan officer was responsible for
6 determining whether to recommend that a loan be
7 approved or not approved for renewal?

8 A That's correct.

9 Q So that would not have been your
10 responsibility?

11 A No, it would not.

12 Q Sir, you testified earlier that you
13 recalled there were four loan risk ratings.

14 Mr. Nappi then showed you a document which
15 stated, he indicated, there were five risk ratings.

16 I'd like to show you another document
17 which is actually a loan application. It's dated
18 January 8, 1987, and it indicates that it's a loan
19 application by the Whitewater Development Company.

20 It is clearly the loan we've been talking
21 about, indicating that Mr. Proctor is the loan
22 officer.

1 This document is Bates stamp number DKS-
2 023014, and I ask you to look at the second page,
3 which is DKS-023015, and tell me whether, at the
4 very bottom of the page, there's an indication of the
5 possible risk ratings for a loan?

6 (Handing document to witness.)

7 THE WITNESS: Yes, there is.

8 BY MR. PORTNOY:

9 Q How many such ratings are there?

10 A Six.

11 Q This loan is rated what, sir?

12 A A 3, a C-rating.

13 Q So in fact, sir, this loan, based on the
14 existence of six ratings, would have been in the
15 upper half of the rating scale, would it not?

16 A I would consider it a middle of the rating
17 scale.

18 Q But you would not consider it at the
19 bottom of the rating scale?

20 A That's correct.

21 Q And you wouldn't consider it a loan that
22 was about to go into default, would you, sir?

1 A Not from that risk rating, no.

2 Q Would you be surprised, sir, if I told you
3 that we've had testimony that 80 percent of the loans
4 at First Ozark were rated 3?

5 A I have no knowledge of that.

6 Q I appreciate that you have no knowledge of
7 the prior testimony. I'm asking you whether it's
8 consistent with your recollection that 80 percent or
9 approximately 80 percent of the loans at First Ozark
10 were rated 3?

11 A I do not recall.

12 Q You don't recall?

13 A No, I do not.

14 Q Are you saying you recall that it's not
15 the case, or that you simply don't recall?

16 A I simply don't recall.

17 Q Just to clarify some discussion that you
18 had with Mr. Nappi, the allegation has been made that
19 the Whitewater loan was the only loan which lacked
20 financial statements.

21 I believe you testified that that's not
22 true. Is that correct?

1 A I believe I testified that I don't recall
2 if it was the only one in the bank with personal
3 financial statement deficiencies.

4 MR. NAPPI: His testimony will stand. If
5 you want to clarify, then elaborate. It's not fair
6 to ask him to re-testify.

7 BY MR. PORTNOY:

8 Q Sir, we've been told that as many as 25
9 percent of the loans at First Ozark lacked personal
10 financial statements.

11 A I don't recall that.

12 Q Do you recall that it's not true?

13 Or do you just simply not recall whether
14 it's true?

15 MR. NAPPI: I think you should also
16 clarify we're not providing him with any
17 documentation of that. It's someone's estimate.

18 MR. PORTNOY: This is testimony, the
19 recollection of another witness.

20 THE WITNESS: I would testify that that
21 would be a high number.

22 MR. NAPPI: But again you're going off

60

1 your recollection?

2 THE WITNESS: That's correct. I have no
3 knowledge of it. I have no records from the
4 examinations of the OCC for me to tell that. But in
5 my personal opinion, I do not recall that.

6 BY MR. PORTNOY:

7 Q Do you recall a different percentage?

8 A No. I don't know the specific percentage.

9 Q So you're not testifying that simply
10 because you only remember one loan with financial
11 statement deficiencies, that there only was one loan
12 with financial statement deficiencies, are you?

13 A No. I believe I'm not.

14 Q So you would agree with me that a number
15 of loans had financial statement deficiencies?

16 MR. NAPPI: Do you have personal
17 knowledge, Jim, of the loan files?

18 THE WITNESS: I would say, ask me that one
19 more time, please.

20 BY MR. PORTNOY:

21 Q You testified that you only recalled one
22 loan with financial statement deficiencies. Is that

1 correct?

2 A I believe I did, yes.

3 Q You also testified that the reason you
4 recalled this particular loan was because of the
5 identity of one of the guarantors?

6 A That's correct.

7 Q So what stood out in your mind about this
8 loan as much as anything was the identity of the
9 borrower?

10 A No. What stands out in my mind about this
11 loan is the lack of a personal financial statement
12 from Mr. and Mrs. Clinton.

13 Q Without trying to recall a specific loan,
14 other than the Whitewater loan, is it your
15 recollection that other loans generally lacked
16 financial statements?

17 A It would be my recollection that some
18 loans in the bank's portfolio lacked personal
19 financial statements. I would take out the word
20 "generally lacked."

21 Q I was referring to a general recollection
22 rather than loans generally.

1 A I understood it to be generally the loans.

2 Q No, sir. I'm asking for your general
3 recollection whether other loans lacked financial
4 statements, and I believe you testified, as a matter
5 of general recollection, there were other loans that
6 lacked financial statements.

7 A I don't know how clear I need to be on
8 this.

9 MR. NAPPI: Come on, Jim, let's move on.
10 I think he's been very clear. This loan, for one
11 reason or another, stands out in his mind.

12 THE WITNESS: I cannot testify that there
13 were other loans in the bank.

14 MR. PORTNOY: We'll move on to another
15 subject.

16 BY MR. PORTNOY:

17 Q Did you ever tell anyone that the
18 Whitewater loan should be called?

19 A Yes.

20 Q You did?

21 A Yes.

22 Q Who did you tell?

1 A Ron Proctor.

2 Q Do you recall the circumstances under
3 which you made that statement?

4 A No. I just remember telling him that. I
5 don't remember telling him that the loan should be
6 called. I think I remember discussing the loan with
7 him, and asking him why the loan was not called. I
8 don't recall his answer to that, but I know there was
9 at least one discussion where I proposed that the
10 loan should be called.

11 Q In fairness, sir, I should tell you Mr.
12 Proctor does not remember any such conversation.

13 Did you ever insist that the question of
14 calling the Whitewater loan be brought to the board
15 of directors at the bank?

16 A No.

17 Q Did you ever argue to the board of
18 directors that the Whitewater loan should be called?

19 A No.

20 Q Did you ever tell any member of the board
21 of directors that the Whitewater loan should be
22 called?

64

1 A No.

2 Q To the best of your knowledge, did you
3 ever discuss the Whitewater loan with a member of the
4 board of directors of the bank?

5 A Ed Penick.

6 Q And you've indicated that you had one
7 conversation with Mr. Penick, and that was prior to
8 an officers loan committee meeting?

9 A That's correct.

10 Q Other than that, have you ever discussed
11 the Whitewater loan with a member of the board of
12 directors of the bank?

13 A No.

14 Q When you told Mr. Proctor that you thought
15 the loan should be called, or you wondered why the
16 loan wasn't called, was that before or after the loan
17 was renewed?

18 A I don't recall.

19 Q Did you tell any other members of the
20 officers loan committee that you believed the loan
21 should be called?

22 A I'm sure I did.

1 Q Who would that have been?

2 MR. NAPPI: Is this a specific
3 recollection?

4 THE WITNESS: I'm guessing.

5 BY MR. PORTNOY:

6 Q You have no specific recollection of
7 telling anyone other than Mr. Proctor?

8 A No.

9 Q But you have a specific recollection of
10 telling Mr. Proctor?

11 A Mr. Proctor's my immediate supervisor. I
12 was a junior loan officer, and in the conversation I
13 had with Ron, I said, I remember some of them
14 vividly, but in regards to Whitewater I do remember
15 telling him. I think the terminology, telling him,
16 should be taken out of there, and said, asking him
17 why the loan was not called. I do not recall his
18 response.

19 Q Was it your view, sir, that the bank
20 should call the loan?

21 A Yes. But I was a junior loan officer and
22 had no authority to do so.

1 Q You've indicated, sir, that you voted to
2 renew the Whitewater loan.

3 A Yes, I did.

4 Q Because you thought that it was the right
5 thing to do?

6 A Define the right thing to do.

7 Q Because you thought the loan should be
8 granted, should be approved?

9 A I thought it should be renewed because it
10 was the Governor of the State of Arkansas, not that
11 it was a good loan.

12 Q Was the loan ultimately paid, sir?

13 A Yes, it was.

14 Q Did the bank receive all its money?

15 A I was not there at the time it was repaid,
16 but I believe it was.

17 Q Sir, you indicated that payments on the
18 loan were being made by Rosalie Wade. Is that
19 correct?

20 A As I remember it, yes.

21 MR. NAPPI: I think he testified that some
22 of the escrow payments were being paid by Rosalie

1 Wade.

2 THE WITNESS: Yes.

3 BY MR. PORTNOY:

4 Q I believe you also indicated that you were
5 concerned that the payments were sometimes late?

6 A Yes.

7 Q Did you ever apprise the Clintons of that
8 concern?

9 A No, I didn't.

10 Q Did you ever apprise the McDougals of that
11 concern?

12 A No, I didn't.

13 Q Did you ever tell anyone outside the bank
14 or Mrs. Wade of that concern?

15 A No, I did not.

16 Q So you have no idea if the Clintons were
17 even aware that the payments were being made late?

18 A No, I do not.

19 Q To your knowledge, did Bill Clinton ever
20 request special treatment for the Whitewater loan?

21 A No, he didn't.

22 Q Did Mrs. Clinton?

68

1 A No, she didn't.

2 Q Did Mr. Clinton ever exert any influence
3 on the bank to try to obtain some kind of special
4 treatment for the loan?

5 A No, he didn't.

6 Q Did Mrs. Clinton?

7 A No, she didn't.

8 Q Did anybody acting on their behalf, to the
9 best of your knowledge?

10 A To the best of my knowledge, no.

11 Q So when you indicated earlier that the
12 loan stood out because Mr. Clinton was influential,
13 that was a general observation?

14 A Yes.

15 Q That wasn't a statement that he exercised
16 influence on the bank?

17 A No, sir. That's my personal opinion.

18 MR. NAPPI: Off the record for one minute.
19 (Discussion off the record.)

20 BY MR. PORTNOY:

21 Q Did anyone ever indicate to you that they
22 shared your view that the loan should be called?

1 A I don't recall.

2 Q You don't recall whether it occurred, or
3 you recall that it did not occur?

4 A I don't recall that it occurred.

5 Q Sir, did you speak to Mr. Stewart?

6 A Yes, I did.

7 Q Did you tell him that you'd written the
8 Clintons repeatedly?

9 MR. NAPPI: I think we are outside the
10 scope now.

11 MR. PORTNOY: Let's go off the record.
12 (Discussion off the record.)

13 BY MR. PORTNOY:

14 Q Sir, I'm going to ask this directly.

15 Did you tell Mr. Stewart that you brought
16 your concerns about the loan to the board of
17 directors and argued that the loan should be called?

18 A No, I didn't.

19 Q Did you ever tell him that you argued to
20 the board of directors that the loan should be
21 called?

22 A No, I didn't.

70

1 Q Do you have any idea where he would have
2 gotten that information?

3 A No, I do not.

4 Q Did you tell Mr. Stewart you had written
5 the Clintons repeatedly?

6 A I think I actually told Mr. Stewart that
7 we had written the Clintons repeatedly asking for
8 financial information, as I recall it.

9 Q So Mr. Stewart misunderstood.

10 MR. NAPPI: He's not in a position to say.

11 MR. PORTNOY: That's true.

12 BY MR. PORTNOY:

13 Q To the best of your recollection, you
14 never told him that you had personally written the
15 Clintons?

16 A That's correct.

17 MR. PORTNOY: I don't have any further
18 questions.

19 MR. NAPPI: One clarifying question.

20 FURTHER EXAMINATION

21 BY MR. NAPPI:

22 Q Did you know that Jim McDougal controlled

1 Madison Guaranty Savings & Loan?

2 A Yes.

3 Q Did you know it at the time that you were
4 working at First Ozark?

5 A Yes.

6 Q Do you recall when Mr. McDougal was
7 removed from the board of Madison Guaranty Savings &
8 Loan? Or do you recall learning that he had been
9 removed?

10 A Yes.

11 Q Did other people at the bank know this?

12 A I have no knowledge of that. It was in
13 the state newspapers.

14 Q Did that cause you concern with respect to
15 this loan?

16 A No.

17 MR. NAPPI: Okay.

18 FURTHER EXAMINATION

19 BY MR. PORTNOY:

20 Q Do you have any reason to believe, sir,
21 that there's any connection whatsoever between the
22 Whitewater loan and branch banking legislation?

72

1 A No.

2 Q I take it you've never suggested to
3 anybody that there might be a connection?

4 MR. NAPPI: Did you talk about it with
5 James Stewart?

6 THE WITNESS: Yes.

7 MR. NAPPI: Did you offer an opinion with
8 respect to the legislation that Twin City Bank may
9 have been interested in?

10 THE WITNESS: Yes.

11 BY MR. PORTNOY:

12 Q What did you tell him?

13 A I told him that I remembered that Twin
14 City Bank had wanted to branch into Little Rock and
15 that because of the legislation, we were unable to do
16 so. And I believe my wording in the book said it was
17 said that it was next and I told him that's all I
18 knew of it.

19 Q Did he raise with you the subject of
20 branch banking, or did you raise it with him?

21 A He did with me.

22 Q Did he ask you if there was any connection

1 in your mind between the Whitewater loan and the
2 branch banking?

3 A I do not recall him asking that.

4 MR. NAPPI: So you don't have any
5 recollection whether he did or didn't?

6 THE WITNESS: No, I do not.

7 MR. PORTNOY: Thank you, sir.

8 MR. NAPPI: I have no further questions.

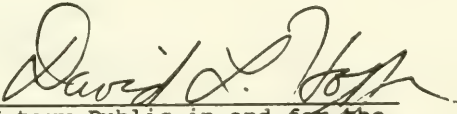
9 (Whereupon, at 7:25 p.m., Friday, May 3,
10 1996, the taking of the deposition ceased.)

11
12 -----
13 VERNON H. DEWEY
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

74

I, DAVID L. HOFFMAN, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires JUNE 30, 2000

**DEPOSITION OF EDWARD M. PENICK, JR.
IN RE: S. RES. 120**

FRIDAY, MAY 3, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Telephone deposition of EDWARD M. PENICK, JR.,
called for examination pursuant to notice of deposition, at 9:55 a.m.
in Room 212 of the Dirksen Senate Office Building, before JO-
ANNE LIVERANI, a Notary Public within and for the District of
Columbia, when were present:

DOUGLAS R. NAPPI, Esq.
Majority Counsel
JAMES S. PORTNOY, Esq.
Minority Associate Special Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

PAUL W. HOOVER, JR., Esq.
MARTHA M. HILL, Esq.
Hoover, Dougherty & Kooistra
111 Center Street
Eleventh Floor
Little Rock, Arkansas 72201-4445
On behalf of the Deponent.

CONTENTS

WITNESS

EXAMINATION

Edward M. Penick, Jr.

by Mr. Nappi	4
by Mr. Portnoy	97
by Mr. Nappi	131
by Mr. Portnoy	133
by Mr. Nappi	134

PROCEEDINGS

MR. NAPPI: Let's go on the record. This deposition is being conducted pursuant to 120 Resolution, establishes a Special Committee administered by the Banking Committee to conduct an investigation involving Whitewater Development Corporation and other related matters. Section 1(b)(3) of Senate Resolution 120 authorizes investigations and public hearings into, amongst other things, the activities, investments and tax liability of Whitewater Development Corporation and is related to Whitewater Development Corporation of its officers, directors and shareholders. This will be the focus of today's deposition.

You will likely be requested to testify in the near future at public hearings. We will ask a series of questions; you will testify under oath. If you don't understand a question, let me know and I will rephrase. If you need a break, let me know. The stenographer will prepare a record of questions and answers. This deposition will be treated as committee confidential. Until the commencement of

hearings prior to the hearings, you will receive a letter from the Committee telling you that you may come to the Senate to review the transcript of your deposition and make note of any corrections for transcription on an errata sheet.

If you are called to testify at a public hearing, you will be permitted to have a copy of your deposition transcript in advance of your testimony. You may be represented by counsel. Objections to the form of questions will be noted for the record; counsel may object on grounds of privilege and relevance.

The Committee Chairman may rule on objections where the witness refuses to answer a question.

Reporter, please swear in the witness.
Whereupon,

EDWARD M. PENICK, JR.
was called as a witness and, having first been duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. NAPPI:

1 Q Would the witness please state his name for
2 the record.

3 A Edward M. Penick, Jr.

4 Q Mr. Penick, you are represented by counsel?

5 A That's correct.

6 MR. NAPPI: Counsel, please identify
7 themselves.

8 MR. HOOVER: Paul W. Hoover, Jr. and Martha
9 M. Hill.

10 BY MR. NAPPI:

11
12
13
14 Q And your present business address?

15 A 6807 West 12th Street.

16 Q And where are you presently employed?

17 A Exsorbet, E-x-s-o-r-b-e-t, Industries,
18 Incorporated.

19
20
21
22 Q And prior to your current employment, where

1 were you employed?

2 A I was employed at Twin City Bank.

3 Q Were you employed by the bank or were you
4 an employee of the holding company, TC Bankshares?

5 A Both.

6 Q Could you explain?

7 A I was paid by Twin City Bank on their
8 payroll. I was an officer in both corporations.

9 Q Okay. And how long had you been employed
10 at Twin City Bank or what were the dates of your
11 employment, excuse me?

12 A Doug, it is singular, Twin City Bank.

13 Q I'm sorry, Twin City Bank.

14 A I began employment there, I believe, in
15 1968, or '69, about then.

16 MR. PORTNOY: What was the bank called at
17 the time? Was it Twin City, sir?

18 THE WITNESS: Yes, sir.

19 BY MR. NAPPI:

20 Q And when did you leave Twin City?

21 A I left in April of 1991.

22 Q What position did you hold when you joined
✓

1 Twin City?

2 A It was a management trainee position when I
3 joined it.

4 Q When did you become an officer of Twin
5 City?

6 A I don't recall the exact date.

7 Q Prior to 1980?

8 A Yes, sir.

9 Q When did you become an executive officer?

10 A Would you explain executive officer?

11 Q All right, let's cut to the chase. When
12 did you become president of Twin City Bank?

13 A I don't recall the exact date. It was -- I
14 would imagine in the late '70s.

15 Q Okay. Were you the chairman or the chief
16 executive officer, excuse me?

17 A No, sir.

18 Q You were not?

19 A No, sir.

20 Q And how long were you president?

21 A I was president of Twin City Bank until --
22 I don't know exactly when I took over the title as

1 vice chairman of the bank. I don't remember exactly
2 when.

3 Q So you became president sometime, you
4 believe, in the late '70s, and then you were later
5 made vice chairman?

6 A Yes, sir.

7 Q Was that a promotion?

8 A It is altered responsibilities.

9 Q How did it alter your responsibilities?

10 A Well, it changed from what I was doing
11 before to what I was doing as vice chairman.

12 Q What were you doing as president?

13 A Well, you have to put that in a frame of
14 reference. I was president for a long period of time
15 and the bank changed its organizational structure
16 several times for a long period.

17 Q Can you say approximately when you became
18 vice chairman?

19 A I think it was in '90 or '91.

20 Q Okay. When you became president, what were
21 your responsibilities?

22 A When I first became president?

- 1 Q Yes.
- 2 A I don't really remember.
- 3 Q Do you recall when Twin City Bankshares
- 4 acquired First Ozark?
- 5 A The specific date?
- 6 Q No; do you recall that acquisition
- 7 occurring?
- 8 A Yes, sir.
- 9 Q Do you recall if it was in 1984?
- 10 A Let me make a correction. TC Bankshares
- 11 did not acquire First Ozark National Bank.
- 12 Q Okay, could you explain the transaction,
- 13 then?
- 14 A Yes, sir.
- 15 Q Please do.
- 16 A TC Bankshares purchased Citizens Bank &
- 17 Trust, Flippin, Arkansas.
- 18 Q Okay, you are right, I'm sorry.
- 19 Did that occur in 1984?
- 20 A I do not remember.
- 21 Q What was your role at the bank as president
- 22 at Twin City Bank, excuse me, at the time of the

10

- 1 acquisition of Citizens Bank & Trust by
- 2 TC Bankshares?
- 3 A I can't remember exactly what
- 4 organizational structure we had at the time. More
- 5 likely, it was involved in loan activities, in
- 6 addition to my responsibilities in the holding
- 7 company.
- 8 Q Did your responsibilities ever entail
- 9 legislative affairs, lobbying?
- 10 A Yes, sir.
- 11 Q When was that part of your portfolio?
- 12 A I don't remember exactly when I was given
- 13 that responsibility. I was active in it from the
- 14 very beginning.
- 15 Q Okay. When TC Bankshares acquired Citizens
- 16 of Flippin, were you made a member of the board of
- 17 Citizens?
- 18 A I was chairman of the board, yes, sir.
- 19 Q You were chairman of the board. And that
- 20 was from the date of acquisition?
- 21 A I don't remember specifically from the date
- 22 of acquisition. We were setting up the

1 organizational structure, and it was shortly
2 thereafter.

3 Q Was it prior to Citizens charter conversion
4 or --

5 A I don't remember.

6 Q How long did you serve as chairman of the
7 board for Citizens or First Ozark, excuse me?

8 A I don't remember specifically when I
9 resigned that responsibility. I don't remember if it
10 was when I was still with the bank. Probably when I
11 left the bank but it could have been right before
12 that.

13 Q So, was it after 1990?

14 A More than likely, yes.

15 Q All right. Do you know an individual named
16 Terry Renaud?

17 A Yes, sir.

18 Q How do you know him?

19 A He was my superior and he hired me to join
20 the bank, Twin City Bank, in 1968, or whenever the
21 date was I joined the bank.

22 Q Okay. So he was your boss?

1 A That's correct.

2 Q Was he your boss at the time that TC
3 Bankshares acquired Citizens?

4 A Yes, sir.

5 Q Was he on the board of directors at
6 Citizens?

7 A Well, at that time it became First Ozark
8 National, but yes, he was on that board.

9 Q Do you know how long he served on the
10 board?

11 A No, I don't.

12 Q Do you know Margaret Davenport?

13 A Yes, sir.

14 Q How do you know Margaret Davenport?

15 A She worked at Twin City Bank.

16 Q Were you her supervisor?

17 A I may have been at one time, but I can't
18 specifically remember. It would have involved what
19 the organizational chart was at the time.

20 Q Was there ever a time where she was your
21 superior in the organizational structure?

22 A No, sir.

- 1 Q Do you know Susan Cisk?
 2 A Yes, sir.
 3 Q How do you know her?
 4 A She worked at Twin City Bank.
 5 Q What was her role at Twin City Bank?
 6 A She was primarily a real estate lender.
 7 Q Okay. Was she involved at all in the
 8 oversight or the management of First Ozark?
 9 A She could have been, yes. The
 10 individual --
 11 MS. HILL: Don't speculate.
 12 THE WITNESS: Okay. She could have been.
 13 BY MR. NAPPI:
 14 Q Was she a member of First Ozark's loan
 15 committee?
 16 A Not that I can recall.
 17 MR. NAPPI: Let's go off the record for one
 18 minute.
 19 (Discussion off the record.)
 20 MR. NAPPI: Let's go back on the record.
 21 BY MR. NAPPI:
 22 Q Do you know an individual by the name of

- 1 Wes Strange?
 2 A Yes.
 3 Q How do you know Wes Strange?
 4 A He was president of the First Ozark
 5 National Bank.
 6 Q And do you know Vernon Dewey?
 7 A Yes, sir.
 8 Q How do you know him?
 9 A Vernon was a loan officer in the bank.
 10 Q And do you know Ron Proctor?
 11 A Would you say that again, please.
 12 Q Ron Proctor?
 13 A Yes, sir, I do know Ron Proctor.
 14 Q How do you know Ron Proctor?
 15 A He was also an employee in the bank.
 16 Q As chairman of First Ozark, did you attend
 17 every meeting of the board of directors?
 18 A No.
 19 Q No?
 20 A No, sir.
 21 Q How frequently did the board meet?
 22 A It was designed to meet monthly.

1 Q And that was throughout the time that you
2 were a chairman of the board?

3 A Yes, sir.

4 Q How many meetings would you attend a year?

5 MS. HILL: If you know. You are in what
6 period? That's kind of a global question. I object
7 to it.

8 BY MR. NAPPI:

9 Q All right. In 1984, do you recall how many
10 meetings you attended?

11 A No, sir.

12 Q Do you recall if you attended every
13 meeting?

14 A No, sir.

15 MR. PORTNOY: Sir, does that mean that you
16 don't recall or that you recall you did not attend
17 every meeting?

18 THE WITNESS: That, I do not recall. It's
19 been too long ago.

20 MR. PORTNOY: Thank you, sir.

21 BY MR. NAPPI:

22 Q Can you recall how many meetings you

1 attended in 1985?

2 MS. HILL: Doug, you just went out.

3 MR. NAPPI: Yes, I am getting a little
4 feedback here. Is it better?

5 MS. HILL: It is better.

6 BY MR. NAPPI:

7 Q Mr. Penick, how many meetings did you
8 attend in 1985?

9 A I do not know.

10 Q But it is your recollection that you did
11 not attend every monthly meeting?

12 MS. HILL: He didn't testify to that.
13 Could you rephrase that question.

14 BY MR. NAPPI:

15 Q Did you attend every monthly meeting of the
16 board?

17 MS. HILL: In 1985?

18 BY MR. NAPPI:

19 Q No, during your chairmanship.

20 A I don't recall.

21 Q Do you recall, in 1986, if you attended
22 every meeting?

1 A I do not recall.

2 Q Okay. Did you ever attend meetings of the
3 loan officers committee?

4 MR. PORTNOY: The officers' loan
5 committee.

6 THE WITNESS: Not that I can remember.

7 MS. HILL: Just for a point of reference
8 for my purposes, we are talking about the First
9 Ozark, aren't we?

10 MR. NAPPI: Yes.

11 MS. HILL: Just want to make sure.

12 MR. NAPPI: No, I hear you.

13 BY MR. NAPPI:

14 Q Those meetings of the board that you did
15 not attend, did you typically participate via
16 telephone?

17 A No, sir.

18 MR. PORTNOY: I am not sure the testimony
19 is clear, that Mr. Penick recalls whether there were
20 meetings he did not attend.

21 Is it your testimony, sir, that there were
22 meetings you did not attend but you just can't recall

1 when they were?

2 THE WITNESS: I cannot recall whether I
3 attended all the meetings or not.

4 MR. NAPPI: Okay.

5 MR. PORTNOY: So it is not clear to you --

6 MR. NAPPI: You are right.

7 MR. PORTNOY: I just want to be clear on
8 the record.

9 BY MR. NAPPI:

10 Q Mr. Penick, do you know Bill Clinton?

11 A President Clinton?

12 Q Yes.

13 A Can you explain that in a little more
14 detail?

15 Q Do you know him personally?

16 MS. HILL: If you don't understand the
17 question, tell him.

18 THE WITNESS: You will have to be more
19 precise.

20 BY MR. NAPPI:

21 Q Have you ever met Bill Clinton?

22 A Yes, sir, I have met President Clinton.

1 Q When did you first meet Bill Clinton?

2 A I cannot recall when I first met President
3 Clinton.

4 Q Did you know him at the time you were the
5 chairman of the board -- at the time you became
6 chairman of the board of First Ozark?

7 A Yes, sir.

8 Q Was your relationship with him a personal
9 friendship?

10 A No, sir.

11 Q So, was it a business relationship or more
12 of a professional relationship? Excuse me.

13 A There was no relationship.

14 Q So, you had met him but you did not have a
15 relationship?

16 A That's correct.

17 Q Okay. Do you know Betsey Wright?

18 A Yes, I do.

19 Q Did you know Betsey Wright at the time you
20 joined the board of First Ozark?

21 A Yes, sir.

22 Q What was the nature of your relationship

20

1 with Betsey Wright?

2 A There was really no relationship. I just
3 knew who she was. She probably didn't know who I
4 am.

5 Q Do you recall when you first met her?

6 A No, I do not.

7 MR. PORTNOY: Sir, let me interject. Do
8 you recall if you ever met her at all?

9 MR. HOOVER: I think he testified that he
10 didn't recall when he met her.

11 MR. PORTNOY: I apologize. I wasn't sure
12 if the testimony was he knew who she was or he had
13 actually met her.

14 MR. NAPPI: Let's clarify that.

15 BY MR. NAPPI:

16 Q Have you ever met Betsey Wright?

17 A I have met Betsey Wright. I can't remember
18 when I met her.

19 Q Okay. Do you know Sam Bratton?

20 A No, sir. I know who Mr. Bratton is, I do
21 not know him personally.

22 Q Okay. So you have never met Mr. Bratton?

1 A Not that I can recall.
2 Q Have you ever met Hillary Rodham Clinton?
3 A Yes, I have met Mrs. Clinton.
4 Q On how many occasions?
5 MS. HILL: If you know.
6 THE WITNESS: I do not know.
7 BY MR. NAPPI:
8 Q You met her more than once?
9 MR. HOOVER: Maybe you better define what
10 you mean by "met her more than once." Did he see
11 her?
12 MS. HILL: Like in a receiving line? I
13 think we can get to it a little bit more quickly that
14 way.
15 MR. NAPPI: Okay.
16 BY MR. NAPPI:
17 Q Have you ever had contact with Hillary
18 Rodham Clinton --
19 MR. HOOVER: Would you define "contact"?
20 MR. NAPPI: Will you let me finish my
21 question.
22 MR. HOOVER: I'm sorry. I thought you were

1 finished.
2 BY MR. NAPPI:
3 Q Have you ever had contact with Hillary
4 Rodham Clinton regarding any loan that she may have
5 had outstanding from First Ozark bank?
6 A In what capacity?
7 Q Did you ever have -- did you ever discuss
8 the loan that Whitewater Development Corporation had
9 outstanding from First Ozark Bank with Hillary
10 Clinton?
11 A Not that I can recall.
12 Q Did you ever have any contact with Hillary
13 Rodham Clinton regarding the Whitewater Development
14 Corporation loan?
15 A I presume you are talking about First Ozark
16 National Bank?
17 Q Yes.
18 A Yes.
19 Q Can you explain the circumstances of that
20 contact?
21 A I wrote Mrs. Clinton a letter, asking her
22 if she would get a current financial statement to the

1 bank.
2 Q Do you recall the date of that letter?
3 A No, sir.
4 Q Was it in 1987?
5 A I don't know.
6 Q Do you have a copy of that letter?
7 A No, sir.
8 Q What prompted you to write that letter?
9 A I was at a meeting at First Ozark National
10 Bank, and we were reviewing a list of documentation
11 deficiencies, and the Clintons' name was on that list
12 for not having a current financial statement. I
13 volunteered to write Mrs. Clinton a letter, to see if
14 I could secure that for the bank.
15 Q Who were the participants in this meeting?
16 A I can't remember.
17 Q Was Ron Proctor a participant?
18 A I can't remember.
19 Q Was Vernon Dewey?
20 A I can't remember.
21 Q Was Wes Strange?
22 A Probably, but I am not certain.

1 Q Was this a meeting of the board of
2 directors?
3 A No, sir. Well, let me clarify that. It
4 was a meeting of the board of directors' loan
5 committee.
6 Q Can you place this meeting in time?
7 A Not exactly, no, sir.
8 Q I am not asking for a specific day. Can
9 you place it in a year?
10 A No, sir.
11 Q Was it the common practice of First Ozark's
12 board of directors' loan committee to review document
13 deficiencies?
14 A Yes, sir.
15 Q Was there any threshold as to loan amount?
16 A No, sir.
17 Q So every file at the bank was reviewed by
18 the loan committee?
19 MS. HILL: Well, I think we need --
20 MR. NAPPI: You are right. Every document
21 deficiency --
22 MR. PORTNOY: I believe he testified. I

1 think the confusion, Doug, is that Mr. Penick
2 testified that he recalls seeing the Clintons' name
3 on a document deficiency list, which is not
4 necessarily the same as reviewing the loans. The
5 board may well have been reviewing the list of
6 document deficiencies.

7 MR. NAPPI: Yes, but I am not saying
8 reviewing the loan. I am saying for every loan the
9 bank had outstanding where there were document
10 deficiencies, the loan committee was apprised.

11 MS. HILL: May I interrupt here? I think
12 we are talking about two different loan committees,
13 Doug. If you could be more specific as to which one
14 you are talking about.

15 MR. NAPPI: The board of directors' loan
16 committee.

17 MS. HILL: Right. Does he need to repeat
18 that for you?

19 THE WITNESS: He does.

20 MS. HILL: All right.

21 BY MR. NAPPI:

22 Q We are focusing on the board of directors'

1 loan committee. Was it the practice of that loan
2 committee to review or to be apprised of every
3 document deficiency that existed in every loan file
4 at First Ozark?

5 A It was the practice of the loan committee
6 to review the document deficiency report list.

7 Q And what was your knowledge of what that
8 document deficiency list -- how that was compiled?

9 A It was either compiled through an internal
10 loan audit program or from a bank examination report,
11 normally.

12 Q Do you recall whether this particular list,
13 the one that contained the deficiency on the
14 Whitewater loan, was compiled as a result of an
15 internal audit or an examination by the regulators?

16 A No, sir, I do not.

17 Q Okay. Was this the first time you recall
18 being apprised of a deficiency in a loan file?

19 A No --

20 Q Excuse me, that wasn't the question I meant
21 to ask.

22 Is it the first time you recall being

1 apprised of a deficiency in the Whitewater loan file?

2 A I can't specifically recall.

3 Q Was this the first time you had volunteered
4 to help collect documents for a credit file?

5 A No, sir.

6 Q Do you recall the other instances in which
7 you did it?

8 A They are too numerous to recall.

9 Q So you had done it previous to this?

10 A I'm sorry. I didn't hear you.

11 Q So you had previously volunteered to help
12 collect documents for a credit file?

13 A Yes, sir.

14 Q But you don't recall any specific
15 occasions?

16 A No, sir. It was just a normal practice.

17 MS. HILL: If you get tired or anything
18 like that, let us know.

19 THE WITNESS: I am all right.

20 MR. NAPPI: Yes, if you feel like taking a
21 break, let me know.

22 THE WITNESS: Thank you.

1 BY MR. NAPPI:

2 Q If we could focus again on this meeting of
3 the loan committee, do you recall who made the
4 presentation of document deficiencies or how did they
5 do that work would be more pertinent? Did the loan
6 committee members sit down and review a list of
7 document deficiencies?

8 A Yes, sir, among other things. Typically,
9 it was part of a report package we would get.

10 Q Do you recall who made the presentation of
11 that report?

12 A No, generally, it was just put together by
13 administrative people and directors. It was at their
14 seat and they would go through it and there would be
15 an agenda and we would follow that agenda.

16 Q Do you recall a time when the Arkansas
17 legislature was considering a bill that was enacted
18 as Act 539?

19 A Yes, sir.

20 Q Can you place this meeting at the same time
21 as that bill was under consideration?

22 A What meeting?

1 Q I'm sorry, the meeting regarding the -- the
2 loan committee meeting that we had discussed
3 earlier.

4 A No, I cannot.

5 MR. PORTNOY: Again, sir, could you please
6 clarify whether that means you recall the meeting
7 being at a different time from the consideration of
8 the Act or you simply don't recall whether they were
9 at the same time.

10 THE WITNESS: I don't recall whether they
11 were in the same year or not.

12 MR. PORTNOY: Thank you, sir.

13 BY MR. NAPPI:

14 Q Do you recall whether it was prior to that
15 Act's consideration?

16 A No, I don't.

17 Q Okay. So at this meeting of the loan
18 committee, it came to your attention that a financial
19 statement was needed from the Clintons for the
20 Whitewater Development loan.

21 You volunteered to seek a financial
22 statement; is that correct?

1 A Yes, sir.

2 Q Were you provided with a form of financial
3 statement to forward to them?

4 A I secured one from Twin City Bank.

5 Q Okay. Did you ask for any -- were you
6 provided with any other information regarding this
7 loan to convey to the Clintons?

8 A No, sir. Not that I can recall.

9 Q All right. Then you wrote a letter to
10 Mrs. Clinton requesting her to complete the financial
11 statement?

12 A Yes, sir.

13 Q Did you include the financial statement?

14 A I believe it was customary that we include
15 a form with it for the convenience of our customer.

16 Q And was there any other follow-up regarding
17 this financial statement?

18 A What do you mean, "follow-up"?

19 Q Sure. All right, you send this letter to
20 Mrs. Clinton. Why did you send it to Mrs. Clinton
21 rather than the Governor?

22 A It was a personal and confidential matter,

1 and I could not see sending it to then-Governor
2 Clinton at either the Capitol or the Governor's
3 mansion.

4 MR. PORTNOY: I believe he said because it
5 wasn't anybody's business.

6 MS. HILL: No, he said because it would go
7 through too many hands.

8 MR. PORTNOY: Thank you. I completely
9 misheard that.

10 MS. HILL: Yes, and this was a personal
11 matter is what he said.

12 MR. PORTNOY: Thank you very much for
13 clarifying that for us, Martha.

14 BY MR. NAPPI:

15 Q Where did you send it?

16 A I sent it to Mrs. Clinton at the Rose Law
17 Firm.

18 Q Weren't you concerned it would go through
19 other hands there?

20 A No, sir.

21 Q You thought it would go directly to her?

22 A Yes, sir.

1 Q Did anyone direct you to send it to Hillary
2 Clinton rather than Bill Clinton?

3 A No, sir.

4 Q Were you the only employee at Twin City
5 Bank involved in obtaining this financial statement
6 or seeking to obtain the financial statement?

7 MS. HILL: If he knows.

8 THE WITNESS: I really don't know.

9 BY MR. NAPPI:

10 Q Did you ever talk to Margaret Davenport
11 about the need to obtain this financial statement?

12 A Not that I can recall.

13 Q Okay. Could I direct your attention to the
14 first record I would like you to look at. It is a
15 photocopy of handwritten notes. It appears to be on
16 personalized stationery or personalized note pad that
17 says "Hillary Rodham Clinton.

18 MR. HOOVER: Doug, this is personalized.

19 MS. HILL: He is getting ready to say it.

20 MR. HOOVER: I'm sorry, go ahead.

21 BY MR. NAPPI:

22 Q That is marked "Hillary Rodham Clinton"

1 along the top and it is Bates stamp number, and it
2 might be difficult to read on your copy, DKRT
3 700294.

4 MR. PORTNOY: Can we go off the record for
5 one second, Doug?

6 MR. NAPPI: Sure, go off the record.

7 (Discussion off the record.)

8 MR. NAPPI: Let's go on the record. Let
9 the record reflect that Martha Hill is leaving the
10 deposition.

11 MS. HILL: To go to Austin to catch a
12 flight. Thank you.

13 THE WITNESS: Let's continue if you want.

14 BY MR. NAPPI:

15 Q Would you take a moment to review this
16 record?

17 A Yes, sir.

18 Q Does this record help refresh your
19 recollection as to whether you have talked to
20 Margaret Davenport?

21 A I had not seen this until yesterday.

22 Q That's not the question I asked.

1 A Please repeat the question.

2 Q Having reviewed this record, does it
3 refresh your recollection as to any conversation you
4 might have had with Margaret Davenport?

5 A No, it doesn't.

6 Q You don't recall ever conveying the
7 information on this record to Margaret Davenport?

8 A No, I do not.

9 Q And you don't have any recollection of
10 asking Margaret Davenport to follow up with Hillary
11 Rodham Clinton regarding the financial statement?

12 A I can't recall that I did, no, sir.

13 Q You don't have any recollection of ever
14 asking Margaret Davenport to approach Hillary Rodham
15 Clinton regarding the Whitewater loan that First
16 Ozark held?

17 A I cannot recall talking to Margaret about
18 it. No, no.

19 Q So you forwarded a financial statement to
20 Mrs. Clinton under your offer letter. Do you recall
21 whether you received the financial statement back?

22 A I did not.

1 Q Did you ask her to direct it to First
2 Ozark?

3 A I can't recall.

4 MR. NAPPI: We have to go off the record so
5 the reporter can take care of the business that needs
6 to be attended to to get the quick turnaround on
7 these things. So we will go off the record.

8 (Discussion off the record.)

9 MR. NAPPI: Let's go back on the record.

10 BY MR. NAPPI:

11 Q Let's return to our consideration of the
12 handwritten notes that I had asked to you look at.

13 Did you ever have any conversations with
14 Margaret Davenport regarding the Whitewater
15 Development loan?

16 A Not that I can recall.

17 Q Did Margaret Davenport ever speak to anyone
18 at First Ozark regarding this loan?

19 A I don't know about that.

20 Q Did Terry Renaud ever speak to Margaret
21 Davenport about the Whitewater loan?

22 A I have no knowledge of that.

1 Q At this point in time, or at the point in
2 time when you volunteered to forward a financial
3 statement to Mrs. Clinton, did you know
4 Mrs. Clinton? Had you met her previously?

5 A Yes, sir.

6 Q What was the nature of your relationship?

7 MR. HOOVER: I thought we went into that.

8 MR. NAPPI: No, we started to and --

9 MR. HOOVER: Oh, okay.

10 THE WITNESS: I knew Mrs. Clinton from
11 events, primarily fundraising events, those kind of
12 events. I was also involved in the Chamber of
13 Commerce as chairman, Chamber of Commerce, in 1987,
14 so the governor at the time and Mrs. Clinton were at
15 a lot of groundbreakings and things like that of
16 importance, and I would see them on those occasions.

17 In addition, the Rose Law Firm was
18 representing Twin City Bank in an issue at some time
19 and I cannot place the exact time when that issue was
20 and I had some contact with Mrs. Clinton on that
21 issue.

22 Q Had you ever contacted Mrs. Clinton to

1 discuss legislative or regulatory matters?

2 A Not that I can recall.

3 Q Did you ever contact Governor Clinton to
4 discuss legislative or regulatory matters?

5 MR. HOOVER: You better define "contact."

6 BY MR. NAPPI:

7 Q Do you recall any -- contact with would be
8 any meeting, any telephone call, any face-to-face
9 conversation, any letter or notes?

10 A That's awfully broad. I mean, I would
11 write letters. Governor Clinton would be in meetings
12 where I was in attendance.

13 Q At this time, again, I am focusing on the
14 time when you volunteered to get the financial
15 statement.

16 A Yes, sir.

17 Q Prior to that time, had you ever had a
18 one-on-one meeting with Governor Clinton?

19 A Not that I can recall.

20 Q Had you ever met with Governor Clinton --
21 strike that.

22 Other than generally attended public events

1 like you discussed, your role in the Chamber of
2 Commerce, putting those events aside, had you ever
3 met with Governor Clinton?

4 A Yes, sir.

5 Q Can you recall specifically?

6 A Well, generally, they were banking-type
7 meetings, we were talking about banking issues or the
8 economy.

9 Q Would he meet with you and other members of
10 Twin City Bank or would it be more of a like
11 legislative coalition meeting, like under the
12 auspices of the Arkansas Bankers Association?

13 A It was more of the latter, an industry-type
14 of meeting.

15 Q So you forwarded the financial statement to
16 Mrs. Clinton. Did she respond to you?

17 A No, sir.

18 Q You never received a response letter?

19 A Not that I can recall.

20 Q You didn't receive a phone call from her?

21 A Not that I can remember.

22 Q And you did not call her to insure that she

1 had received the financial statement?

2 A Not that I can remember.

3 Q So why did you take it upon yourself to
4 forward it to her, if you were, in essence, just
5 mailing a financial statement to her?

6 A Well, there was a cover letter and I was
7 asking her if she could help get this financial
8 statement completed and get it returned to the bank.

9 Q Why did you think your cover letter would
10 effectuate that occurring?

11 A Well, nothing heretofore had worked, so I
12 was hoping that this would work.

13 Q Did you discuss with the employees of First
14 Ozark why they had not been able to or what steps
15 they had taken to try to obtain the financial
16 statement?

17 A I cannot recall whether we discussed that
18 or not.

19 Q But you knew they were having difficulty
20 obtaining a financial statement?

21 A The financial statement was not in the
22 bank.

40

1 Q Was this the first time they had had
2 trouble getting a financial statement from the
3 Clintons?

4 A I do not know.

5 Q Subsequent to this event, where you took it
6 upon yourself to forward the financial statement, did
7 they have trouble obtaining subsequent financial
8 statements?

9 A Not that I can remember.

10 Q Do you recall other instances where you saw
11 the Whitewater loan on the document deficiency list?

12 A No, sir, I cannot recall.

13 Q Do you recall Margaret Davenport ever
14 telling you that she had had contact with Hillary
15 Rodham Clinton regarding the Whitewater loan?

16 A I cannot recall that she did.

17 Q All right, could I direct your attention to
18 the other handwritten note page, it is also on
19 personalized stationery. It says "Hillary Rodham
20 Clinton" across the top.

21 A Would you identify the Bates stamp number?

22 Q DKS N 029262.

- 1 A Yes, I have it.
2 Q Okay. Take a moment to review the note.
3 A Yes, sir.
4 Q Do you recall ever providing the
5 information memorialized in this note to Hillary
6 Rodham Clinton?
7 A No, sir.
8 Q Do you recall ever conveying it to someone
9 else to relay to Hillary Rodham Clinton?
10 A No, sir.
11 Q Do you recall ever asking Margaret
12 Davenport to reach out to Hillary Rodham Clinton?
13 A No, I cannot recall doing that.
14 Q Not just on this loan; on any matter.
15 A I can't specifically recall, no, sir, I
16 don't. I can't.
17 Q Did you know Margaret Davenport was a
18 friend of Hillary Rodham Clinton's?
19 A I did.
20 Q How did you know that?
21 A Margaret would tell us that she was.
22 Q Did she ever volunteer to contact Hillary

- 1 Rodham Clinton on any matter?
2 A I cannot recall that she did.
3 Q Did she ever talk to Hillary Rodham Clinton
4 about pending legislation?
5 A Did I?
6 Q No, did Margaret Davenport?
7 A Not that I am aware of.
8 Q The next item I would like to direct your
9 attention to is a record designated "personal
10 financial statement," and in the right-hand corner it
11 is designated "Twin City Bank."
12 Now, you have two copies of this, one of
13 which was provided to you this morning. Could you
14 look at the one we provided you this morning.
15 MR. PORTNOY: For the record, Doug, is this
16 the financial statement that appears to be dated
17 March 24, 1987?
18 MR. NAPPI: Yes.
19 BY MR. NAPPI:
20 Q Do you have that record in front of you,
21 Mr. Penick?
22 A Yes, sir.

1 Q Have you ever seen this document?

2 A Just this morning, yes, sir.

3 Q Prior to this morning, you have never seen
4 this document?

5 A Well, there was a copy faxed yesterday.

6 Q Prior to yesterday, have you ever seen this
7 document?

8 A No, sir. Not that I can remember.

9 Q The next record I would like you to focus
10 on is entitled "file notes, Whitewater Development
11 Inc., Loan 5885." It is dated January 6, 1987. It
12 is two pages long, and it's got handwritten serial
13 numbers on it, D 149 and D 150.

14 MR. HOOVER: That came in the morning fax?

15 MR. NAPPI: Yes, sir.

16 MR. PORTNOY: The record should reflect
17 that what appears to be the same document was
18 produced as Bates number DKSX 006268.

19 MR. NAPPI: It is the same record produced
20 from a different source.

21 BY MR. NAPPI:

22 Q Do you have that in front of you?

1 A Yes, sir.

2 MR. HOOVER: I don't see any Bates number
3 on ours.

4 MR. NAPPI: No. All right, as you can
5 imagine, we have received -- let's go off the -- no,
6 this should be on the record.

7 We've received what appear to be the same
8 documents from different sources, and Mr. Portnoy's
9 working off a record that was produced from one
10 source; I faxed you this record, pursuant to the
11 confidentiality agreement that I obtained from
12 another source. See, they both were subpoenaed, just
13 from different sources. We received the same
14 record.

15 MR. PORTNOY: Off the record for a second.
16 (Discussion off the record.)

17 MR. NAPPI: Let's go back on the record.

18 BY MR. NAPPI:

19 Q Mr. Penick, do you recall ever seeing this
20 record before this morning?

21 A Not that I can recall.

22 Q Could you take a moment to review it?

1 A I have.

2 Q This doesn't help you place in time the
3 meeting at which you volunteered to try to obtain the
4 Clinton's financial statement?

5 A No, sir.

6 Q In 1987, Twin City Bank was headquartered
7 in North Little Rock; is that correct?

8 A Yes, sir.

9 Q Was it a state chartered bank or federally
10 chartered bank?

11 A State chartered bank.

12 Q At that point in time, 1987, did Arkansas
13 have bank branching laws that were somewhat
14 restrictive?

15 MR. HOOVER: What are you -- that's a
16 pretty broad term, "somewhat restrictive."

17 MR. NAPPI: Okay.

18 BY MR. NAPPI:

19 Q In 1987, were the bank branching laws that
20 were in effect in Arkansas restricting Twin City
21 Bank's business growth?

22 MR. HOOVER: If you know.

1 THE WITNESS: That's a matter of opinion.

2 BY MR. NAPPI:

3 Q What's your opinion?

4 THE WITNESS: Could we go off the record
5 for a minute?

6 MR. NAPPI: Actually, if I could just get
7 that on the record.

8 THE WITNESS: I need to ask counsel.

9 MR. HOOVER: We can step outside.

10 MR. NAPPI: If you want to talk to your
11 counsel, we will go off the record.

12 THE WITNESS: One second.

13 (Discussion off the record.)

14 MR. NAPPI: Let's go back on the record.

15 BY MR. NAPPI:

16 Q Do you recall the pending question?

17 A No, sir. Please repeat it.

18 MR. NAPPI: Could you reread the question
19 (The reporter read the record as requested.)

20 BY MR. NAPPI:

21 Q Can you answer that question?

22 A Well, it is a matter of opinion, the bank

1 was doing very well without any change in the
2 branching laws.

3 Q So, what was your opinion? After all, you
4 were the bank president.

5 A My opinion was there would be more
6 opportunities with expanded branching opportunities.

7 Q Was that opinion shared by Mr. Renaud?

8 A Yes.

9 Q Was that opinion shared by Frank Lyon?

10 A I don't know about Mr. Lyons's opinion.

11 Q But Mr. Renaud, who is your superior and
12 yourself were both of the opinion that there would be
13 more opportunity?

14 A Yes, sir.

15 Q So you would have supported legislation at
16 that time that would have allowed Twin City to branch
17 more -- well, let me rephrase that.

18 Did you support the legislation that
19 recently was enacted as Act 539 of 1987 or did Twin
20 City Bank take an official position on this
21 legislation?

22 A Yes.

1 Q And what was that official position?

2 A It was proactive in favor of similar
3 legislation.

4 Q What do you mean by "similar legislation"?

5 A Well, this legislation and/or similar
6 legislation.

7 Q Okay. Were there other similar bills being
8 considered by the legislature in 1987?

9 A I cannot specifically recall.

10 Q You said they were "proactive." What do
11 you mean when you used that term?

12 A We were encouraging our legislators and
13 others that we -- that would listen to us to vote for
14 a change.

15 Q Who drafted the legislation, or the
16 legislative proposal that became Act 539.

17 A I cannot recall.

18 Q Was it drafted at Twin City bank's request?

19 A I cannot recall.

20 Q Were you personally involved in the
21 drafting?

22 A I don't specifically remember.

1 Q Were you involved in initiating the
2 drafting of this legislation?

3 A I reviewed the draft before it was
4 introduced. But I don't think I drafted it or took
5 part in drafting it.

6 Q Do you recall who gave you the draft that
7 you reviewed?

8 A I cannot remember.

9 Q Was it drafted by lawyers at Twin City
10 Bank?

11 A I don't think Twin City Bank had any
12 lawyers at that time, on staff.

13 Q Was it drafted by outside counsel for Twin
14 City Bank?

15 A I think I already answered that.

16 Q I don't recall.

17 A I said I did not know who drafted it, I
18 think.

19 Q Who introduced this legislation, the
20 legislators?

21 A I can't even recall that.

22 Q Was it introduced -- was companion

1 legislation introduced in both houses?

2 A I cannot remember that.

3 Q Did you personally request that this
4 legislation be introduced?

5 A To whom?

6 Q By the legislators that introduced it.

7 A I can't even remember who introduced it. I
8 think it was introduced in the House first, and then
9 later in the Senate. But I cannot specifically
10 recall.

11 Q And you don't recall whether you personally
12 asked for the introduction of this legislation?

13 A No, sir, I don't.

14 Q Do you know if anyone at Twin City Bank
15 asked that this legislation be introduced?

16 A No, I do not.

17 Q Were any other banks proactive in getting
18 Act 539 passed?

19 A Yes, sir.

20 Q What banks were those?

21 A The ones that I can remember were Union
22 National Bank in Little Rock, one of the banks in

1 Jacksonville. I can't remember which one. A chain
2 of banks owned by Mr. Walton up in Bentonville, and
3 there were probably other -- there were other banks
4 out in the state that I can't remember were active in
5 it.

6 MR. PORTNOY: Sir, could I ask you to
7 clarify, that was Jacksonville, Arkansas --

8 THE WITNESS: Yes, sir.

9 MR. PORTNOY: -- not Jacksonville, Florida.

10 THE WITNESS: That's correct.

11 BY MR. NAPPI:

12 Q Who else reviewed this legislation before
13 it was introduced?

14 A I have no idea.

15 Q Did Mr. Renaud?

16 A I do not know.

17 Q Did representatives from any other bank?

18 A I know Berry did, Paul Berry who was at
19 Union National Bank at the time.

20 Q Were there banks who opposed this
21 legislation?

22 A Yes, sir.

1 Q Did the Arkansas Bankers Association oppose
2 this legislation?

3 A My recollection is that they do.

4 Q Did the Independent Bankers of Arkansas?

5 A My recollection is that they did.

6 Q Both groups opposed the legislation?

7 A As best as I can recall, yes.

8 Q Okay. Were there any banking trade
9 associations in Arkansas that supported the
10 legislation?

11 A I think the Arkansas Association of Bank
12 Holding Companies was in favor of it, but I can't
13 specifically recall them going on record as doing
14 so.

15 Q Were the majority of the banks in Arkansas
16 supportive of this legislation?

17 A Majority in terms of number or assets size
18 or --

19 Q In terms of number?

20 A No, majority would be opposed to it.

21 Q Majority in assets size?

22 A I would have to run those numbers.

- 1 Q Yes, okay. Did you ever discuss Act 539,
2 or the legislative proposals that became Act 539,
3 with Governor Clinton?
- 4 A Not that I can recall.
- 5 Q Did you ever discuss them with Hillary
6 Rodham Clinton?
- 7 A Not that I can recall.
- 8 Q Did you ever discuss it with Marlon
9 Jackson?
- 10 A More than likely, yes.
- 11 Q Can you recall any specific conversations?
- 12 A No, sir.
- 13 Q Did Marlon Jackson support this legislation
14 as introduced?
- 15 A I cannot remember.
- 16 Q Did he support it upon passage or did he
17 support its passage by the legislature?
- 18 A You will have to ask him.
- 19 Q Did you ever discuss this legislation with
20 Betsey Wright?
- 21 A Not that I can recall.
- 22 Q Did you ever discuss it with anyone from

- 1 the Governor's office?
- 2 A I can't recall a specific discussion or a
3 specific meeting when we talked about it, no.
- 4 Q Do you know if Mr. Renaud ever discussed it
5 with the Governor?
- 6 A I do not.
- 7 Q With Mrs. Clinton?
- 8 A I do not.
- 9 Q With Marlon Jackson?
- 10 A I do not.
- 11 Q With Betsey Wright?
- 12 A I do not.
- 13 Q With anyone from the Governor's office?
- 14 A I do not.
- 15 Q Did any representative of Twin City Bank
16 ever discuss this legislation with the Governor?
- 17 A Not that I know of.
- 18 Q What about Mrs. Clinton?
- 19 A Not that I know of.
- 20 Q Same question with respect to Marlon
21 Jackson?
- 22 A Not that I know of.

- 1 Q What about Betsey Wright?
2 A Not that I know of.
3 Q Anyone from the Governor's office?
4 A Not that I know of.
5 Q Did you ever discuss this legislation with
6 Bruce Lindsey?
7 A Not that I can recall.
8 Q Do you know Bruce Lindsey?
9 A Yes, I do.
10 Q Did you ever discuss it with Web Hubbell?
11 A Not that I can recall.
12 Q Do you know if anyone from Twin City Bank
13 ever discussed this legislation with Mr. Lindsey?
14 A Bruce Lindsey?
15 Q Yes.
16 A Not that I know of, no, sir.
17 Q What about Web Hubbell?
18 A Not that I am aware of.
19 Q Do you know an attorney at the Rose Law
20 Firm whose last name is Byrd?
21 MR. HOOVER: Excuse me, repeat that
22 question.
-

- 1 MR. NAPPI: I was asking the witness if he
2 knew an attorney at the Rose Law Firm whose last name
3 is Byrd.
4 THE WITNESS: There is a Byrd attorney, and
5 I -- probably a lot of them anyway.
6 And if that's who I think it is, yes, I do
7 know him. But you will have to give me more
8 information for me to be accurate.
9 BY MR. NAPPI:
10 Q That person you are thinking of, did you
11 ever speak to him regarding Act 539?
12 A I cannot recall.
13 Q I would like to direct your attention to a
14 May 28, 1987 letter on the Friday, Eldredge & Clark
15 law firm letterhead.
16 MR. HOOVER: Now that came in our package
17 of yesterday.
18 MR. NAPPI: Yesterday, yes.
19 THE WITNESS: Yes, sir, I have it.
20 BY MR. NAPPI:
21 Q Prior to yesterday, do you recall seeing
22 this letter?

1 A Yes, sir.

2 Q Do you recall the circumstances where you
3 saw this letter?

4 A I do not, no.

5 Q Did you see it contemporaneous with its
6 drafting or in May of 1987?

7 A With the drafting of the letter?

8 Q Well, the letter is dated May 28, 1987.

9 A Yes.

10 Q Do you recall if you saw it in that time
11 period, in the spring of 1987?

12 A I cannot specifically recall when I saw the
13 letter.

14 Q Did you see it prior to the passage of Act
15 539?

16 A I cannot specifically recall.

17 Q Did you know that Act 539 was of
18 questionable constitutionality?

19 A Yes, I did.

20 Q How did you come to know that?

21 A I was involved in litigation on that
22 issue.

1 Q Who was the litigation with?

2 A First Commercial Bank and others sued Twin
3 City Bank. I am not sure of the defendants and
4 plaintiffs, but those were the sides on the
5 constitutionality of this issue.

6 Q That was a case in Arkansas State Court; I
7 take it?

8 A Yes, sir.

9 MR. PORTNOY: I'm sorry, sir, who are the
10 defendants?

11 THE WITNESS: I said I am not exactly
12 certain of the plaintiffs or the defendants, but the
13 sides were First Commercial versus Twin City, and the
14 issue was the constitutionality of Act 539.

15 BY MR. NAPPI:

16 Q And so it was after the Act was enacted
17 into law?

18 A Yes, sir.

19 Q And they were attempting to stop you from
20 branching into Little Rock or they were trying to
21 close your Little Rock branches --

22 A That's correct.

1 Q -- prior to Act 539's passage by the
2 legislature?

3 MR. HOOVER: Which Act is that?

4 MR. NAPPI: 539.

5 BY MR. NAPPI:

6 Q So the legislation that would allow
7 branching in Pulaski County, prior to that
8 legislation's passage by the Arkansas legislature,
9 were you aware of questions regarding the Act's
10 constitutionality?

11 A Yes, sir.

12 Q Did that concern you?

13 A Yes, sir.

14 Q Who apprised you of those concerns?

15 A I can't remember specifically who.

16 Q Did you take any actions to try to remedy
17 what could be seen as constitutional problems?

18 A We defended the lawsuit.

19 Q No, I mean during the legislative process.

20 A Before passage of the bill?

21 Q Yes.

22 You had a bill where there was a question

1 whether it violated the constitutional prohibition
2 against local laws; is that correct?

3 A Restate that, would you, please.

4 Q The bill we are discussing, this 1987
5 legislation, that liberalized the branching law for
6 counties with over 200,000 people, there was a
7 question as to whether this was violative of the
8 Arkansas Constitution, and the prohibition against
9 the enactment of local laws; is that correct?

10 A Yes, there was a question about its
11 constitutionality; I think I mentioned that before.

12 Q Now I want to focus your attention on the
13 time prior to the enactment of the law.

14 A Yes, sir.

15 MR. HOOVER: When was the law enacted?

16 MR. NAPPI: The law was enacted on -- let
17 me dig it out.

18 MR. PORTNOY: Sir, according to our
19 records, the bill was signed -- Act 539 was signed by
20 Governor Clinton on April 1st, 1987.

21 MR. NAPPI: Is that helpful?

22 MR. HOOVER: That's helpful.

1 BY MR. NAPPI:

2 Q Prior to that time, did you ever take any
3 action to try to remedy the possible constitutional
4 problems with this law?

5 A Not that I can recall.

6 Q Did you have any discussions with anyone in
7 the Governor's office regarding the constitutionality
8 of this law?

9 A Not that I can recall.

10 Q The next record I would like you to look at
11 is a June 17, 1987 letter from Candace Franks, the
12 Arkansas state banking department, to Bob Birch who
13 at that time, this letter purports, was executive
14 vice president of Twin City Bank.

15 A I have it.

16 Q Do you recall seeing this letter prior to
17 yesterday?

18 A Yes, sir.

19 Q Do you recall the circumstances in which
20 you saw it?

21 A Not specifically, no.

22 Q Do you recall why Twin City Bank decided to

62

1 file an application prior to Act 539's effective
2 date?

3 A We were trying to get a branch, branches
4 approved in Little Rock.

5 Q But the law had not become effective yet,
6 and you had already filed the application; do you
7 recall why you did that?

8 A No, I cannot.

9 Q Was it due to concerns that this law might
10 not be upheld in court?

11 A I can't specifically recall.

12 Q Do you recall whether the lawsuit that you
13 had referred to, had been filed as of this date, June
14 17?

15 A No, sir, I do not know.

16 MR. NAPPI: We will go off the record for a
17 minute.

18 (Discussion off the record.)

19 MR. NAPPI: We can go back on the record.

20 BY MR. NAPPI:

21 Q The next record I would like you to look at
22 is a July 9, 1987 letter on Twin City Bank letterhead

1 to Bill Houston at the FDIC in Memphis. Do you have
2 that in front of you?

3 A Yes, sir.

4 Q Have you had an opportunity to review it?

5 A Yes, sir.

6 Q Have you ever seen this letter prior to
7 yesterday?

8 A Not that I can remember.

9 Q On the first page is mentioned that Edward
10 M. Penick, Jr. is one of the partners in Capital
11 Towers; do you see that?

12 A Yes, sir.

13 Q Is that true, at that point in time were
14 you a part owner of Capital Towers?

15 A Yes, sir.

16 Q Okay. Is that building now known as TCBY
17 Towers?

18 A Yes, sir.

19 Q Are you still a part owner?

20 A Yes, sir.

21 Q Is that the building where Twin City Bank
22 established a branch or one of its branches in Little

1 Rock?

2 A Yes, sir.

3 Q Do you recall when the decision was made to
4 establish a branch in that building?

5 A Not specifically. No, sir.

6 Q Do you recall if it was prior to the
7 enactment of Act 539?

8 A Yes, sir.

9 Q You recall that it was, in fact, that
10 decision was made prior to the enactment of 539?

11 A Yes, sir.

12 Q So you were fairly certain Act 539 would
13 become enacted?

14 A No, sir.

15 Q It sounds like there was substantial
16 opposition to this Act.

17 MR. HOOVER: Is that Act 539?

18 MR. NAPPI: Yes, sir, excuse me.

19 BY MR. NAPPI:

20 Q Is that correct? Was it a controversial
21 Act?

22 A The legislature passed it overwhelmingly.

1 Q But was it controversial amongst the
2 banking community?

3 A You will have to talk to the banking
4 community.

5 Q Well, you were a member of the banking
6 community at that time. You were president of one of
7 the largest banks in the state; is that correct?

8 A That's correct.

9 Q Would it be unreasonable to assume that you
10 had a sense of the banking community's pulse on this
11 particular legislation?

12 A I guess.

13 Q Was it your sense that there was strong
14 opposition in the banking community against this Act?

15 A There was opposition against it, yes, sir.

16 Q Do you recall if there were a lot of
17 cosponsors of this legislation when it was introduced
18 in the House?

19 A I can't even remember who sponsored it.

20 Q So you do not recall the number of
21 cosponsors?

22 A No, I cannot.

1 Q What about in the Senate, do you recall the
2 number of cosponsors there?

3 A No, sir, I don't.

4 Q Do you recall having a lot of difficulty --
5 did you lobby on behalf of this Act in the
6 legislature?

7 A Yes, I did.

8 Q Do you recall it being a difficult job,
9 lobbying and rallying support behind this
10 legislation?

11 A Well, all legislation is difficult. I
12 spent a lot of time lobbying for this Act.

13 Q Did the Governor take an official position
14 on this Act?

15 A Not to my knowledge.

16 Q Did you ever lobby the Governor with
17 respect to this Act?

18 A Not that I can remember.

19 MR. HOOVER: Excuse me, I am not sure I
20 understand the word "lobby."

21 BY MR. NAPPI:

22 Q Did you ever meet with the Governor

1 regarding the merits of this legislation, whether
2 this legislation should be passed, whether it should
3 be amended?

4 A Not that I can remember.

5 Q Did you ever meet with anyone from the
6 Governor's office regarding this legislation and its
7 passage?

8 A Members of his staff could have been in a
9 large group of bank meetings, but I didn't meet with
10 any of them one-on-one.

11 Q Did you ever make an appointment to
12 specifically meet with a member of the Governor's
13 office regarding this legislation?

14 A Not that I can recall.

15 Q All right, the next document I would like
16 to direct your attention to, again, it is handwritten
17 notes, it's Bates stamped JRTS 00002.

18 MR. HOOVER: Excuse me, I am having
19 trouble.

20 THE WITNESS: Was that yesterday's or
21 today's?

22 MR. NAPPI: That was yesterday's package.

1 THE WITNESS: I can't find it.

2 MR. HOOVER: I don't know what you are
3 referring to.

4 MR. NAPPI: There's some handwritten
5 notes. The first line says "BC/Bocarville."

6 MR. HOOVER: Okay. I think I know what you
7 are talking about now. B-o-c-a-r-v-i-l-l-e.

8 (Pause.)

9 Okay. I think we located it. It says BC
10 Bocarville/something Hartsfield.

11 MR. NAPPI: Yes, sir.

12 MR. HOOVER: Under that January 25.

13 MR. NAPPI: Yes, sir.

14 MR. HOOVER: Okay, do you have that,
15 Mr. Penick?

16 THE WITNESS: Yes, I do.

17 BY MR. NAPPI:

18 Q Do you recall a special session of the
19 Arkansas legislature being called in 1988?

20 A Yes, sir.

21 Q Do you recall one of the subject matters
22 was an omnibus banking bill?

1 A Yes, sir.

2 Q Do you recall the circumstances that led to
3 that bill, or the call going out for a special
4 session?

5 A Yes, sir.

6 Q Could you explain the circumstances, as you
7 recall them?

8 A Well, there was pressure to change the
9 branching laws in the state to make them more
10 realistic and competitive with other states.

11 Q Was there any concern about a recent
12 federal court decision?

13 MR. HOOVER: Can you be more specific with
14 that?

15 MR. NAPPI: Sure.

16 BY MR. NAPPI:

17 Q Do you recall that there had been a 5th
18 Circuit Court decision, upholding a comptroller of
19 the currency opinion, or ruling, regarding branching
20 by national banks in Mississippi?

21 A Yes, sir.

22 Q Do you recall that as being a motivation

70

1 for this special session?

2 A Yes, sir.

3 Q Were people very concerned about this
4 opinion in the Arkansas banking community?

5 A Some of them were. Yes, sir.

6 Q Were you?

7 A Yes, sir.

8 Q Can you quantify what was the primary issue
9 that led to the call for a 1988 special session?

10 A I think the fear by some bankers was that
11 the same thing was going to happen in our state.

12 Q And you think that was the reason the
13 Arkansas Banking Association was working to get a
14 special session?

15 MR. HOOVER: I'm not -- was your question,
16 Doug, the primary reason the special session was
17 called --

18 MR. NAPPI: Yes.

19 MR. HOOVER: -- was to pass legislation or
20 consider legislation in banking?

21 MR. NAPPI: Yes.

22 MR. HOOVER: Now, if you know, Mr. Penick,

1 you can answer that question.

2 THE WITNESS: I don't know. I cannot
3 recall the Arkansas Bankers Association's specific
4 position on this issue at the time.

5 BY MR. NAPPI:

6 Q Do you recall whether there was one primary
7 concern in the banking community at that time that
8 led to the desire to have this banking bill taken up
9 in a special session?

10 A I don't remember one primary concern, no,
11 sir.

12 Q All right, if you could focus for a moment
13 on the notes that I directed your attention to
14 earlier?

15 A Yes, sir.

16 Q Do you know who Bocarville is?

17 A Yes, sir.

18 Q Do you know where he was employed in 1988?

19 A I think he was executive director of the
20 Arkansas Bankers Association.

21 Q Do you know who W. Hartsfield is?

22 A I presume that's Wayne Hartsfield.

1 Q And do you know where he was employed in
2 1988?

3 A At one of the banks in Searcy, Arkansas.

4 Q Did he have a role in the Arkansas Bankers
5 Association?

6 A I don't know.

7 Q Did you attend this meeting on January
8 25th?

9 A I don't know.

10 MR. HOOVER: What year now?

11 MR. NAPPI: 1988.

12 THE WITNESS: I don't know.

13 MR. PORTNOY: For the record, the document
14 itself doesn't indicate what year the meeting
15 occurred. I take it Mr. Nappi is surmising it was
16 January 25, 1988.

17 MR. NAPPI: Yes, it does not specifically
18 say January of 1988, but it refers to the special
19 session, it refers to bank branching issues and the
20 McFadden Act. I deduced it from that.

21 BY MR. NAPPI:

22 Q Do you recall attending this meeting?

1 A No, I cannot recall.

2 Q The first line under January 25th says
3 "opposition."

4 MR. HOOVER: Sorry.

5 BY MR. NAPPI:

6 Q The first line under January 25 reads
7 "opposition-TCB"; is that a common acronym for Twin
8 City Bank?

9 A Yes, sir.

10 Q Did Twin City Bank oppose this legislation?

11 A I don't know what legislation you were
12 referring to at that time.

13 Q 1988 -- the proposed Omnibus Banking bill
14 that was taken up in 1988?

15 A I can't remember what our position was at
16 that time.

17 Q "At that time" being January 25th?

18 A If this is January 25, 1988, I cannot
19 remember.

20 Q Do you recall ever discussing this
21 legislation with Bocarville or Mr. Hartsfield?

22 A No, I cannot recall.

1 Q Do you recall Twin City ever taking an
2 official position on this legislation?

3 MR. HOOVER: If you know.

4 THE WITNESS: I think we did. I think we
5 wrote some letters and did some lobbying on that
6 issue.

7 BY MR. NAPPI:

8 Q Were you opposed to it?

9 A I don't think we were, but I can't
10 specifically recall.

11 Q Did you have any specific concerns
12 regarding this legislation?

13 A I can't remember the details of the
14 legislation at the time.

15 Q Do you recall any concerns regarding the
16 Arkansas law that precluded banks from opening
17 branches within 300 feet of another bank's offices?

18 A Yes, I do.

19 Q Was that an issue that was in play in the
20 debate regarding this Omnibus Banking bill?

21 A I think it might have been at one time.

22 Q Was that a concern of Twin City Bank?

1 A It would have been if it had been passed.

2 Q What do you mean "if it had been passed"?

3 A If the 300-foot provision would have stayed
4 in there, we would have had trouble with some of our
5 branches because they would not be in compliance.

6 Q So, as initially drafted, the 1988
7 branching bill had this 300-foot limit in it?

8 A I don't have the legislation here, the
9 draft of the legislation here in front of me, so
10 there is no way I can recall whether it did or
11 didn't.

12 Q Do you recall if it became an issue?

13 A I think it was an issue, yes.

14 MR. PORTNOY: Doug, perhaps in fairness to
15 the witness, we should point out, this Act 539, the
16 1987 legislation did contain a 300-foot limitation of
17 the nature that we have been discussing.

18 MR. NAPPI: Yes, for banks outside of --
19 well --

20 MR. NAPPI: Let's go off the record.
21 (Discussion off the record.)

22 MR. NAPPI: Let's go back on the record.

1 I think we left off with the discussion
2 about the 300-foot rule and I asked Mr. Penick
3 whether it was a concern of his with respect to the
4 1988 legislation. He wasn't sure whether it had been
5 included in that legislation since he didn't have a
6 bill in front of him. I have a letter that was faxed
7 to you, it is a Twin City Bank letter of May 23,
8 1988, Bates stamped JRTS 00142.

9 MR. HOOVER: May when?

10 MR. NAPPI: May 23, I think. It is to
11 Marlon Jackson.

12 MR. HOOVER: Yes, I have it.

13 MR. NAPPI: Could you take a moment to
14 review the letter.

15 THE WITNESS: Yes.

16 BY MR. NAPPI:

17 Q Does this refresh your recollection as to
18 the language in the '88 bill and the bank's position
19 on it?

20 A Yes.

21 Q So do you now recall that this bill did, in
22 fact, contain restrictive language regarding

1 branching within 300 feet of another bank's office?

2 A I'm sorry, would you repeat that, please?

3 Q So do you now recall that the 1988 Act
4 would have restricted Twin City's ability to branch
5 within 300 feet of another bank's office?

6 A Yes. According to that letter, First
7 Commercial inserted a provision in the draft of that
8 bill which would not allow a grandfathering of those
9 branches. We were trying to get support, the bankers
10 of the state, to change that.

11 Q Did the bankers in the state support you on
12 that issue?

13 A I can't recall.

14 Q Did the Arkansas Bankers Association
15 support you?

16 A I cannot recall.

17 Q Do you recall if the independent bankers
18 supported you?

19 A I cannot recall.

20 Q Do you recall whether the law, as passed by
21 the legislature, addressed your concerns?

22 A I cannot recall.

1 Q Do you recall whether the law, as finally
2 enacted into law, addressed your concerns regarding
3 the application of the 300-foot rule to Twin City
4 Bank?

5 A I assume it did because we were able to
6 keep the branch.

7 Q Okay. All right, the next record I would
8 like you to look at, is Bates stamp number JRTS
9 00588.

10 A What is it?

11 Q It is a memo from Betsey to the Governor
12 dated 1/28/88.

13 MR. HOOVER: 1/28/88?

14 MR. NAPPI: Yes.

15 MR. HOOVER: That today's or yesterday's?

16 MR. NAPPI: That was yesterday's bundle.

17 THE WITNESS: Okay.

18 BY MR. NAPPI:

19 Q Did you ever see this record before
20 yesterday?

21 A No, sir.

22 Q Can I direct your attention to the

1 remarks.

2 A Yes, sir.

3 Q There is mention in this memo of an
4 individual bank situation. Do you have any reason --
5 was that individual bank situation, the 300-foot rule
6 and its application to Twin City Bank?

7 A I have no way of knowing.

8 Q Did you ever discuss the 300-foot rule's
9 application to Twin City Bank with Bill Ford?

10 A I cannot recall.

11 Q Do you know who Bill Ford is?

12 A Yes, sir.

13 Q Do you know what job he held in 1988?

14 A I would imagine at that time he was the
15 state bank commissioner.

16 Q Do you know if any representative or agent
17 of Twin City Bank ever contacted Bill Ford regarding
18 the 300-foot provision in the 1988 banking bill?

19 A I cannot recall any discussions with
20 Mr. Ford on that issue.

21 Q All right. The next record I would like --
22 MR. PORTNOY: May I just clarify something

80

1 then.

2 MR. NAPPI: Sure.

3 MR. PORTNOY: I appreciate your indulgence
4 here. But the May 23 letter that you referenced,
5 which indicates concern about the 300-foot rule, also
6 states that the provision as to which Twin City Bank
7 was concerned was inserted in the legislation on
8 April 14, 1988 at a meeting of the Arkansas Bankers
9 Association.

10 The memorandum you just referred to is
11 dated January 28, 1988, about three months earlier,
12 so at least at the time the January --

13 MR. NAPPI: That's why I did not ask about
14 legislative language. I believe I asked about the
15 300-foot issue but I will pose that question.

16 BY MR. NAPPI:

17 Q Did you ever discuss the 300-foot issue
18 with Bill Ford?

19 A Not that I can recall.

20 Q Did you ever discuss -- any representative
21 or agent of Twin City Bank ever discuss the 300-foot
22 issue with Bill Ford?

1 A Not that I recall.

2 Q If I could direct your attention to a
3 January 30 -- well, a calendar page, excuse me, a
4 calendar page that we faxed to you, at the top of
5 which is noted January 30, Saturday.

6 A Yes, sir.

7 Q Okay. The bottom of that page, under
8 Sunday, January 31, I should indicate the top
9 left-hand corner indicates that this calendar was for
10 the calendar year 1988 -- there is a notation "8:30
11 p.m., Governor mansion meeting"?

12 MR. PORTNOY: Can you identify for the
13 record whose calendar this is?

14 BY MR. NAPPI:

15 Q This is the calendar of Bill Ford's banking
16 bill. Do you recall attending that January 31
17 meeting at the Governor's mansion?

18 A I cannot recall, no, sir.

19 Q Do you recall ever attending a meeting at
20 the Governor's mansion with respect to the 1988
21 branching bill?

22 A Not that I can remember, no, sir.

1 Q To backtrack a bit, do you recall any
2 meetings at the Governor's mansion regarding the
3 legislation that became Act 539?

4 A Not that I can remember, no, sir.

5 Q Do you recall any meetings at the office of
6 Arkansas governor in the capital?

7 A Not that I remember, no, sir. Excuse me,
8 about the branching bill?

9 Q About the '88 branching bill.

10 A Not that I can remember.

11 Q About Act 539?

12 A No, sir, not that I remember.

13 Q Do you know if anyone else from TCB
14 attended meetings at the Governor's mansion regarding
15 Act 539?

16 A I do not know, sir.

17 Q Do you know if anyone else from Twin City
18 Bank attended any meetings regarding the 1988 bill at
19 the Governor's mansion?

20 A Not that I can recall.

21 Q Do you know, with respect to either of
22 these bills, do you know if any representative of

1 Twin City Bank attended any meetings at the
2 Governor's office?

3 A Not that I can remember.

4 Q The next record I would like you to look at
5 is a handwritten note, Bates stamped JRTS 00183.

6 MR. HOOVER: A handwritten -- excuse me,
7 now Douglas, what was that?

8 MR. NAPPI: A handwritten note Bates
9 stamped JRTS 00183.

10 MR. HOOVER: 183?

11 MR. NAPPI: Yes, 183.

12 MR. HOOVER: 183, got it.

13 MR. NAPPI: I need to go off the record for
14 about 10 minutes, so why don't we leave. We will
15 pick up at this point and go off the record.

16 (Discussion off the record.)

17 BY MR. NAPPI:

18 Q Back on the record. We were about to
19 discuss a document that's Bates stamped JRTS 00183.
20 Do you have that in front of you, Mr. Penick?

21 A Yes, sir.

22 Q If I could draw your attention to the line

1 that says "banks against," the first designation is
2 "TCB"; does that refresh your recollection as to
3 whether TCB was opposing this legislation as of May
4 9th?

5 A What year?

6 Q Well, the right-hand corner says "special
7 session 4," so I think we can assume it is May 9th of
8 1988?

9 MR. HOOVER: That's your assumption, okay.

10 MR. NAPPI: That's my assumption.

11 BY MR. NAPPI:

12 Q My question is do you recall whether in May
13 1988, Twin City Bank was opposing the special
14 session?

15 A I cannot recall, no, sir.

16 Q All right. The next record I would like to
17 direct your attention to is Bates stamp number JRTS
18 00141.

19 MR. HOOVER: Did that come in --

20 MR. NAPPI: That was yesterday's package,
21 it is a typed letter on a piece of stationery that
22 has the emblem "TCB" on it, and a little B. It says

1 from the desk of Edward M. Penick, Jr.

2 MR. PORTNOY: If it's any help to you, sir,
3 that's one of the documents that I faxed to you, as
4 well.

5 MR. HOOVER: Look at it. Do you have it?

6 THE WITNESS: I do. Illegible, but I've
7 got it.

8 BY MR. NAPPI:

9 Q Can you identify this record?

10 A I can barely read it.

11 Q Mr. Portnoy had just faxed you through a
12 copy of that. Maybe his will be more legible.

13 A It's worse.

14 Q Can you make out any of it?

15 A It appears to be a little note pad that we
16 had with the emblem of the bank at the time, and all
17 employees had this, and they were printed up to have
18 our name on them, and we used them for little notes.

19 Q Do you recall writing a little note
20 "Governor Clinton" on one of these pads?

21 A Well, this is a typewritten note.

22 Q Do you recall having a typewritten note

1 prepared?

2 A I do not recall, no, sir.

3 Q So you do not recognize this record and you
4 do not recall sending this note?

5 A No, I don't.

6 Q In what circumstances would you use one of
7 these notes, and one of these little TCB note pads
8 and not the official stationery of the bank?

9 A I don't really know. Just a matter of
10 convenience or whatever was available at the time.

11 Q Was it your practice, when you sent out a
12 note on one of these note pads, to retain a copy for
13 yourself?

14 A Typically, not.

15 Q So the bank would not retain a record of
16 these notes?

17 A You would have to ask the bank.

18 Q Was it your practice to retain a copy for
19 the bank's files?

20 A It would depend on what the issue was, but
21 generally we did not.

22 Q If you sent a note to the governor of the

1 state on one of these note pads, would it be your
2 practice to copy it for the bank's files?

3 A Probably not.

4 Q If I could redirect your attention to the
5 two-page letter to Marlon Jackson Bates stamped JRTS
6 142 and 143.

7 A Yes, sir.

8 MR. HOOVER: Is that May 23, 1988?

9 MR. NAPPI: Yes, sir.

10 MR. HOOVER: Okay.

11 BY MR. NAPPI:

12 Q Do you recall ever forwarding this letter
13 to Governor Clinton?

14 A I cannot recall, no, sir.

15 Q On that letter, I would direct your
16 attention to some handwritten notes in the right
17 column of the first page; is that your handwriting?

18 A I don't think so, but I can't tell.

19 Q Can you read the first paragraph of the
20 note that -- the Edward M. Penick note?

21 MR. HOOVER: Is that JRTS 00141?

22 MR. NAPPI: Yes.

1 THE WITNESS: I can't read the exact date.

2 BY MR. NAPPI:

3 Q Can you read the "4" paragraph?

4 A No, I can't.

5 Q Can you read the salutation?

6 A It looks like it is Governor Bill Clinton,
7 but that's illegible.

8 Q Well, if I read you the first paragraph, it
9 says, "Bill, the attached copy is revised slightly
10 from the previous one you have been furnished. I
11 have highlighted the two changes for your
12 information."

13 Do you recall what you forwarded to him and
14 what revisions you were talking about?

15 A No, I cannot.

16 Q So that my reading that to you does not
17 help you place it in context?

18 A No, sir.

19 Q Did you frequently write personal notes to
20 Governor Clinton?

21 A No, sir.

22 Q Did you refer to Governor Clinton as Bill?

1 A It depended on the circumstances.
2 Q Could you elaborate?
3 A Well, ask me a question.
4 Q In what circumstances would you refer to
5 Governor Clinton as Bill?
6 A Under casual circumstances, if I would just
7 run into him or at a small function.
8 Q Did you ever socialize with Governor
9 Clinton?
10 A No, sir.
11 MR. HOOVER: Whoa, what do we mean by
12 "socialize"?
13 MR. NAPPI: Get together with Governor
14 Clinton for purely social or personal purposes.
15 THE WITNESS: No, sir.
16 MR. HOOVER: Would that be like going out
17 to dinner with him, or something of that sort?
18 MR. NAPPI: Sure, going out to dinner with
19 him, playing golf with him.
20 THE WITNESS: I have never been to dinner
21 with him in a small group. I have never played golf
22 with him.

90

1 BY MR. NAPPI:
2 Q Is it fair to say you have only had dinner
3 with him at, like, large public events?
4 A Well, not necessarily public, but larger
5 events.
6 I did not type this document.
7 Q Can you say that with certainty --
8 A Yes, sir.
9 Q -- even though you can't read it?
10 A Yes, I wouldn't type -- I probably wouldn't
11 know how.
12 MR. PORTNOY: Mr. Penick, our copy, which
13 is a bit more legible, at the bottom says in capital
14 letters, "EMP: RC" in small letters, did you have a
15 secretary with the initials "RC" at some point, sir?
16 THE WITNESS: Yes, I did.
17 MR. PORTNOY: Would that notation indicate
18 to you that she may have typed this document, sir?
19 THE WITNESS: Yes, sir.
20 MR. PORTNOY: Thank you.
21 BY MR. NAPPI:
22 Q Was it your signature -- could you identify

1 your signature by name?

2 A Her name is Rose Collins.

3 Q Is she still with Twin City Bank?

4 A No, sir.

5 Q Do you know where she works now?

6 A She works on Senator Bumpers's staff.

7 Q How do you spell her last name?

8 A C-o-l-l-i-n-s.

9 Q Was it Ms. Collins's practice to send out
10 notes to the Governor without your authorization?

11 A You will have to ask Ms. Collins.

12 Q Would you have been angry if Ms. Collins
13 had sent a note out on your behalf to the Governor
14 without running it by you?

15 A Yes.

16 Q Did it ever come to your attention that
17 Ms. Collins had sent out a note to the governor of
18 the state without running it by you?

19 A Not that I can recall.

20 Q If I could direct your attention to a
21 document Bates stamped JRTS 206.

22 MR. PORTNOY: Can we clarify one thing

92

1 before we go on to the next document?

2 MR. NAPPI: Sure.

3 MR. PORTNOY: Mr. Penick, you testified
4 that you didn't recall the typed note from the note
5 pad.

6 It is not your testimony, is it, sir, that
7 this document was prepared or transmitted to Governor
8 Clinton without your knowledge?

9 THE WITNESS: That's not my testimony.

10 MR. PORTNOY: I just wanted to be clear on
11 that, sir. You are just saying you don't remember.

12 THE WITNESS: That's correct.

13 MR. PORTNOY: Okay.

14 BY MR. NAPPI:

15 Q Do you have JRTS 206 in front of you?

16 A Yes, I do.

17 Q Do you recognize this record?

18 A That's my handwriting.

19 Q Have you had an opportunity to read it?

20 A Yes, sir.

21 Q Do you recall preparing it?

22 A No. I really don't.

1 Q It says "it has been reported to me, your
2 assistance on the Omnibus Bankers bill and the
3 300-foot provision, and I wanted to relay our
4 appreciation for taking this stand."

5 Do you recall Governor Clinton taking a
6 position on the 300-foot provision?

7 A No, I don't.

8 Q Do you recall who related to you that, or
9 reported to you that he had been of assistance?

10 A I don't know that he was.

11 Q Do you think you would have written the
12 note if you did not think he had been of assistance?

13 A You are presuming the note is to Governor
14 Clinton.

15 Q It was produced from -- fair enough.

16 Do you recall any conversations with --
17 having read this note, do you recall any
18 conversations with Terry Renaud regarding the
19 300-foot provision?

20 A None specifically, no, sir.

21 Q Do you recall ever discussing the need to
22 enlist Governor Clinton's support with respect to

1 this provision?

2 A No, I cannot.

3 Q Do you know if Mr. Renaud or anyone from
4 Twin City Bank ever contacted Governor Clinton with
5 respect to the 300-foot provision?

6 A Not to my knowledge.

7 Q Can you say with certainty that this note
8 was not to Governor Clinton?

9 A I cannot.

10 Q Do you recall ever writing a handwritten
11 note to Governor Clinton?

12 A Not that I can remember.

13 Q One more record I would like you to review,
14 and it is Bates stamped -- it is amongst the records
15 I faxed you this morning, it is Bates stamped CBF
16 0383. They are officer loan committee minutes of
17 First Ozark Bank.

18 MR. PORTNOY: The minutes from January 8,
19 1987?

20 MR. NAPPI: According to your copy, yes.
21 Mine is just January of 1987.

22 THE WITNESS: Okay, I have it.

1 BY MR. NAPPI:

2 Q Have you ever seen this record before
3 today?

4 A Not that I can recall. It is possible.

5 Q All right, could you take a moment to just
6 review it?

7 A I have reviewed it.

8 Q Having reviewed it, does it refresh your
9 recollection as to whether you were in attendance at
10 this meeting?

11 A It doesn't indicate that I attended it.

12 Q Well, you were not a member of the
13 officers' loan committee?

14 A That's correct.

15 Q So it might not necessarily indicate that
16 you were there; is that correct?

17 A If I was there, it would have indicated it
18 or should have indicated it.

19 Q Do you not recall being at this meeting?

20 A No.

21 MR. PORTNOY: I wanted to point out that
22 the document appears to have a line for "also

1 present," so that -- which would indicate that
2 members were not the only attendees who were
3 identified.

4 MR. NAPPI: Yes, we don't have any
5 testimony as to how theirs were maintained.

6 BY MR. NAPPI:

7 Q So you have no recollection of being at
8 this meeting?

9 A I do not.

10 Q Okay. Just to summarize, other than
11 transmitting the financial statement to Mrs. Clinton,
12 you have no recollection of ever discussing the
13 Whitewater loan with the Clintons?

14 A That's correct.

15 Q You can recall no other contact?

16 A That's correct.

17 Q Do you recall any meetings with anyone from
18 the Arkansas governor's office where you discussed
19 the Whitewater loan?

20 A No, sir.

21 Q Did anyone from the Arkansas governor's
22 office ever make it clear to you that they understood

1 that you were on the board of an institution that
2 held the Whitewater loan?

3 A Ask the question again, please.

4 Q Did any member of the Arkansas governor's
5 office ever impart to you their knowledge that you
6 were affiliated with the bank that held the
7 Whitewater loan?

8 A No, sir.

9 Q So you don't recall any event where someone
10 may have said something that made it apparent to you
11 that they knew of your relationship to First Ozark
12 and that First Ozark held the Whitewater loan?

13 A Not that I can recall, no, sir.

14 MR. NAPPI: Okay. I don't have any further
15 questions.

16 EXAMINATION

17 BY MR. PORTNOY:

18 Q Mr. Penick?

19 A Yes, sir.

20 Q My name is Jim Portnoy. I am counsel for
21 the Minority, and I have a few follow-up questions.
22 Sir, you testified that it was common practice for

1 directors to review document deficiency lists?

2 A Yes, sir.

3 Q That's correct?

4 A That is correct.

5 Q And you also testified that you learned
6 that the Whitewater loan had a document deficiency by
7 reviewing such a list?

8 A As I remember, yes, sir.

9 Q Do you recall anybody particularly drawing
10 your attention to the Whitewater loan at that time?

11 A Not that I can recall. No, sir.

12 Q Sir, do you recall being aware that First
13 Ozark had a loan outstanding to the Whitewater
14 Development Corporation prior to seeing that document
15 deficiency list?

16 A Yes, sir.

17 Q You did know?

18 A I did know.

19 Q How did you come to learn that, sir?

20 A As I recall, it was in the due diligence
21 effort before the acquisition was consummated.

22 Q So it was in the course of a loan review,

1 while you were considering the acquisition of
2 Citizens Bank, or in some other context, sir?

3 A It was customary in our acquisitions to do
4 the proper due diligence, which included review of
5 the asset quality of the institutions.

6 Q Did you review all the loans at that time,
7 sir?

8 A I didn't review them. There was a team
9 that reviewed them, and they didn't review all of
10 them, no.

11 Q How were loans selected to be reviewed?

12 A There was a criteria.

13 Q Do you recall what it was or what the
14 criteria were?

15 A Generally it would include the current
16 status of the loan, the collateral, the size of the
17 loan. Might be some other criteria.

18 Q Do you recall approximately what percentage
19 of the bank's loans were reviewed in the course of
20 the due diligence?

21 A No, sir.

22 Q It was more than just a few loans, though,

100

1 wasn't it, sir?

2 A Oh, yes, sir.

3 Q At that time, sir -- strike that.

4 Would it be fair to say, sir, that your
5 knowledge, your first knowledge of the Whitewater
6 loan arose in the regular course of business?

7 A Absolutely.

8 Q And there was nothing special about the
9 fact that you learned about this loan? There were no
10 special circumstances?

11 A The loan was in the bank, in the Citizens
12 Bank portfolio when we entered into an agreement to
13 purchase the bank.

14 Q No one said to you, for example, be
15 careful, we've got this Whitewater loan that involves
16 the Governor and it is a problem?

17 A Absolutely not.

18 Q No one ever indicated to you, at least at
19 the time you were considering the acquisition, that
20 there were any particular or unique problems with the
21 Whitewater loan?

22 A No, sir.

1 Q Nobody ever suggested to you that the
2 Whitewater loan was receiving any kind of special
3 treatment based on the identity of the guarantors?

4 A Absolutely not.

5 Q Did anybody ever indicate to you that the
6 Whitewater loan should receive or had received
7 special treatment as a consequence of the identity of
8 the guarantors?

9 A Absolutely not.

10 Q To your knowledge, did the Whitewater loan
11 ever receive special treatment based on the identity
12 of the guarantors?

13 A No, sir.

14 MR. NAPPI: But it is your testimony that
15 other than review for document deficiency or reviews
16 as part of the document deficiency list, you don't
17 recall any other involvement with the handling of the
18 Whitewater loan.

19 THE WITNESS: I didn't handle it. The loan
20 officers in the bank handled it. I was just chairman
21 of the board.

22 BY MR. PORTNOY:

1 Q To reiterate then, sir, do you recall any
2 other official of the bank somehow bringing the
3 Whitewater loan to your attention, other than through
4 the due diligence process or the document deficiency
5 list?

6 A Not that I can recall.

7 Q Mr. Penick, you testified that you
8 personally favored the expansion of branch banking;
9 is that correct?

10 A I thought it was the right thing to do for
11 the industry and for the future economic development
12 of the state, that's correct.

13 Q So you considered it to be a good idea for
14 the people of Arkansas?

15 A Yes, sir.

16 Q Why did you think so?

17 MR. HOOVER: I think he just answered that
18 question.

19 MR. NAPPI: Counsel, I believe Mr. Penick
20 stated he believed it to be beneficial to the state
21 of Arkansas. I don't believe he's indicated why he
22 considered it to be beneficial to the state of

1 Arkansas and I would like to get that on the record.

2 THE WITNESS: It would allow --

3 MR. HOOVER: Jim, not to argue with you,
4 but I think he recited that he thought it would be
5 good for the industry and good for the economy. If
6 we could read back maybe his answer about two
7 previous questions.

8 MR. PORTNOY: Allow me to go at it this
9 way.

10 BY MR. PORTNOY:

11 Q Mr. Penick, you said you thought bank
12 branching would be good for the banking industry?

13 A Yes, sir.

14 Q Why did you think it would be good for the
15 banking industry?

16 A Bank branching laws were changing all over
17 the country. This gave us an opportunity through our
18 local legislature, and that's -- my primary contact
19 was with the Senators and representatives in our
20 state legislatures to get a bill passed that allowed
21 our legislators and our laws to control the expansion
22 of banks in the state instead of coming from the OCC

104

1 in the Mississippi case, or from a bill in
2 Washington.

3 Q I would like to take you through those
4 concerns a little more systematically, sir. Is it
5 your recollection that states other than Arkansas had
6 more permissive branch banking laws at the time?

7 A Yes.

8 Q Was Arkansas unusual in prohibiting branch
9 banking in the way it did?

10 A I don't know what you mean by "unusual."
11 It was not as permissive as some and it was more
12 permissive than others.

13 Q I believe you also indicated that federal
14 regulators had an interest in branch banking rules;
15 was that your testimony, sir?

16 A Ask me again, please.

17 Q You indicated that there was some concern
18 that branch banking legislation be handled within the
19 state of Arkansas rather than imposed on the state of
20 Arkansas by federal regulators in some fashion.

21 Could you elaborate on that? Explain why
22 you were concerned that federal regulators might

1 impose some kind of branch banking on the state of
2 Arkansas.

3 A Our institution was a state institution,
4 and our authority to branch -- Twin City Bank's
5 authority to branch, as a state bank, would be
6 through legislative action. If the comptroller
7 granted more permissive branching to national banks,
8 we would not be competitive.

9 Q I see. So action by the comptroller of the
10 currency wouldn't have affected you directly, but it
11 might have affected your competitors and given them a
12 competitive advantage?

13 A That's partially correct. It would affect
14 us in our national banks but not Twin City banks.
15 Positively. It would affect it negatively, as you
16 stated.

17 Q We've discussed the fact that Act 539, the
18 1987 legislation, only applied to counties with a
19 population over 200,000.

20 My understanding is that Pulaski County was
21 the only county that was affected by the legislation;
22 is that your recollection, sir?

1 A It is.

2 Q Was this the feature of the Act that made
3 it vulnerable to a constitutional challenge?

4 A Yes, sir.

5 Q Do you know why the Act was limited to
6 Pulaski County?

7 A I think it was easier to get support,
8 legislative support, at that level, and also, if you
9 lowered the population level, that would bring in
10 other counties and possibly raise some opposition.

11 Q So in your estimate, sir, the limitation to
12 Pulaski County was a political judgment to make
13 enactment of the statute easier?

14 A I mean, it was a practical -- it was a
15 practical issue, also.

16 Q How so, sir?

17 A Well, I mean, we were the only county with
18 200,000 or more.

19 Q I appreciate that, sir. But there is no
20 magic about the number 200,000. Clearly the Act was
21 drafted with the purpose of permitting the expansion
22 of branch banking in Pulaski County but not

1 permitting the expansion of branch banking in other
2 counties, and what I am asking you, sir, is why you
3 believe it was drafted that way.

4 MR. NAPPI: Do you have any knowledge of
5 why it was drafted that way?

6 THE WITNESS: A better case for competitive
7 branching could be made in this market, in the
8 Pulaski County market than any other market in the
9 state.

10 BY MR. PORTNOY:

11 Q And why do you think that's the case, sir?

12 A There was more competition.

13 Q So in your view, Pulaski County was the
14 county in which expanded branch banking would have
15 been most appropriate; is that what you are saying,
16 sir?

17 A It would benefit more people and provide
18 more competition than in any other county in the
19 state.

20 Q Do you recall, sir, whether banks
21 headquartered outside Little Rock were particularly
22 opposed to the expansion of branch banking?

108

1 A Some were; some weren't.

2 Q Is that also true of banks within Little
3 Rock?

4 A That is true.

5 Q So the opposition to branch banking was no
6 greater outside Pulaski County than it was inside
7 Pulaski County?

8 A Are you talking numbers?

9 Q Either numbers or fervor or whatever you
10 recall?

11 A Well, obviously the numbers, there are more
12 banks outside Pulaski County than there are inside
13 Pulaski County, so if you just line up the numbers,
14 there would be more opposed that were outside the
15 county that were opposed than from inside the
16 county.

17 Q Let me try it this way, sir. The
18 legislation was drafted to permit an expansion of
19 branch banking in Pulaski County and not to permit
20 the expansion of branch banking outside Pulaski
21 County. Is that fact in some way reflective of the
22 opposition of banks outside Pulaski County to the

1 expansion of branch banking in their areas.

2 MR. NAPPI: Has he testified that it was
3 drafted just for Pulaski County?

4 MR. PORTNOY: It's quite clear, it is a
5 fact.

6 MR. HOOVER: Jim, why don't you repeat that
7 question one more time.

8 MR. PORTNOY: I would be pleased to.

9 BY MR. PORTNOY:

10 Q Act 539, as a practical matter, permitted
11 the expansion of branch banking in Pulaski County but
12 did not permit the expansion of branch banking
13 outside Pulaski County.

14 My question is whether that difference was
15 due, in some measure, to the opposition of banks
16 outside Pulaski County to the expansion of branch
17 banking in their areas.

18 A Yes, I would think it would be.

19 MR. NAPPI: Do you have any specific
20 recollection of that as being a dynamic in play?

21 THE WITNESS: No specific recollection. It
22 just depends on the individual banks.

1 BY MR. PORTNOY:

2 Q Let me try it one more way, sir. Do you
3 have any specific recollection of why the statute was
4 drafted in such a way that the expansion of branch
5 banking was permitted within Pulaski County but was
6 not permitted outside Pulaski County?

7 A Because that's where it was felt would be
8 their most likely success in getting the legislation
9 passed.

10 MR. NAPPI: So you were involved with the
11 drafting?

12 MR. PORTNOY: Let me continue this.

13 BY MR. PORTNOY:

14 Q So your recollection, sir, is that it would
15 have increased opposition to the legislation if the
16 legislation were drafted in a way so as to include
17 other counties; is that correct?

18 A It's possible, yes.

19 MR. NAPPI: It is me again, Mr. Penick. Is
20 it fair to deduce from testimony you just gave
21 regarding the motivation for drafting Act 539 to only
22 apply to Pulaski County that you did, in fact, have

1 input into the drafting of this legislation?

2 THE WITNESS: I think I testified before
3 that I reviewed the draft of the legislation, before
4 it was introduced.

5 MR. NAPPI: Yes, you testified you reviewed
6 the draft. But I don't think you testified that you
7 were involved in the planning of this legislation, or
8 in formulating the proposal.

9 MR. HOOVER: Which legislation now?

10 MR. NAPPI: 539.

11 MR. HOOVER: That's the first bill?

12 MR. NAPPI: Yes, the 1987 bill.

13 THE WITNESS: I did not draft the bill, no,
14 sir; I talked to people who did, I reviewed it before
15 it was introduced.

16 MR. NAPPI: Okay.

17 BY MR. PORTNOY:

18 Q So let me make perfectly clear. You are
19 absolutely certain you reviewed the 1987 legislation,
20 before it was introduced. We are not talking about
21 the 1988 legislation?

22 A The best I can recall, yes, sir.

1 MR. HOOVER: Are you speculating about when
2 you do that?

3 THE WITNESS: I am really speculating but I
4 just --

5 BY MR. PORTNOY:

6 Q That's precisely my point, sir. I think
7 there is record evidence that you had the opportunity
8 to review or be aware of the 1988 legislation prior
9 to its introduction and enactment, but I want to know
10 if you are clear whether you saw both statutes prior
11 to their introduction, or just one?

12 A I can't specifically recall. I remember
13 certain issues that we discussed, but I cannot
14 remember whether it was prior to introduction or
15 shortly thereafter. I'm just unclear on that.

16 Q So without putting too fine a point on it,
17 is it fair to say you don't remember if you saw the
18 1987 legislation in draft form?

19 A I really can't remember.

20 Q You testified earlier that Twin City Bank
21 was involved in litigation concerning the
22 constitutionality of Act 539; do you recall that,

1 sir?

2 A Yes, sir.

3 Q Despite the litigation, TCB did, in fact,
4 open additional branches; did it not?

5 A It opened two branches under the auspices
6 of Act 539; that's correct.

7 Q Two branches.

8 A Well, might be two branches in Little Rock,
9 as I recall.

10 Q Did TCB open branches in other places as
11 well?

12 MR. HOOVER: Well, they were allowed to by
13 the Act.

14 THE WITNESS: I think we opened a branch in
15 Sherwood, if I am not mistaken.

16 MR. HOOVER: Within the county?

17 THE WITNESS: Within the county. Sherwood
18 is a separately incorporated city. I think we opened
19 a branch in Sherwood. I am not sure of the timing
20 when it was done, at the time of 539 or some
21 subsequent legislation.

22 BY MR. PORTNOY:

1 Q Mr. Penick, I would like to direct your
2 attention to a document I faxed to you, file notes
3 dated March 14, 1988. Please let me know when you
4 have had a chance to look at it.

5 MR. NAPPI: Is there a Bates stamp number
6 on that?

7 MR. PORTNOY: No.

8 THE WITNESS: Yes, sir.

9 BY MR. PORTNOY:

10 Q I would ask you to direct your attention to
11 the first two paragraphs. First, sir, have you had a
12 chance to determine whether this is a document that
13 you prepared?

14 A I didn't prepare the document, no, sir.

15 Q If you look at the second page, there is a
16 typed signature, which says "Ed Penick, Jr." Is that
17 you, sir?

18 A Yes, sir.

19 Q Did you somehow dictate this document?

20 A Yes, sir, more than likely.

21 Q So the contents of the document are your
22 work, if not the document itself?

1 A Yes, if I prepared it. I did not prepare
2 it. I probably dictated it.

3 Q Thank you for clarifying that.

4 A Sorry.

5 Q Was it your habit to prepare file notes,
6 sir, on matters that you considered important?

7 A Yes, sir.

8 Q This document states, that you -- and I
9 quote, "visited with Wayne Hartsfield, the president
10 of the Arkansas Bankers Association." And it
11 indicates that you did so on the date of the notes,
12 which was March 14, 1988.

13 Do you have any recollection of meeting
14 with Mr. Hartsfield on March 14, 1988?

15 A No, I don't.

16 Q The second paragraph states that Hartsfield
17 has an agreement with the Governor to call a special
18 session upon full concurrence and commitment of the
19 bankers and banking organizations in the state to
20 support legislation. Do you recall ever discussing
21 with Mr. Hartsfield his efforts to reach an agreement
22 with the governor concerning the Omnibus Banking

1 legislation of 1988?

2 A No, I don't.

3 Q Do you have any reason to believe that you
4 did not meet with Mr. Hartsfield or discuss this
5 matter?

6 A No, I don't.

7 Q So you would accept the accuracy of this
8 information; you just don't recall it?

9 A Yes, sir, I think so.

10 Q Do you recall whether Mr. Hartsfield played
11 a role in securing enactment of the 1988 Omnibus
12 Banking legislation?

13 A I can't specifically recall, no, sir, but
14 typically, the president of the Arkansas Bankers
15 Association would be involved.

16 MR. NAPPI: Could I clarify one thing? Is
17 it your testimony that Mr. Hartsfield was the
18 president of the Arkansas Bankers Association?

19 THE WITNESS: That's what this memo says.

20 MR. NAPPI: Did the memo refresh your
21 recollection to that?

22 THE WITNESS: That's what this memo

1 indicates.

2 MR. NAPPI: But it refreshed your
3 recollection; is that what you are testifying?

4 BY MR. PORTNOY:

5 Q If you will allow me to clarify, sir. I
6 believe you indicated earlier that Mr. Bocarville
7 might have been the executive director of the
8 Arkansas Bankers Association; is that a different
9 job?

10 A Yes, sir.

11 Q So it can be consistent for Mr. Bocarville
12 to have been executive director of the Bankers
13 Association and Mr. Hartsfield to be president of the
14 Bankers Association?

15 THE WITNESS: That's right.

16 MR. NAPPI: I have a slightly different
17 question now.

18 My question is did this memo refresh your
19 recollection that Mr. Hartsfield was the president of
20 bank or the Bankers Association.

21 MR. HOOVER: In other words, do you know of
22 your own knowledge that he was president of the

1 Bankers Association on March 14, 1988?

2 THE WITNESS: I do not know that other than
3 what's indicated in these file notes.

4 MR. PORTNOY: Thank you, sir.

5 MR. NAPPI: Do you know that Hartsfield was
6 president in 1988?

7 THE WITNESS: Other than what's indicated
8 here, I do not know that he was.

9 BY MR. PORTNOY:

10 Q Okay, sir.

11 MR. HOOVER: You just don't remember.

12 THE WITNESS: I don't have a list of who
13 was present when.

14 BY MR. PORTNOY:

15 Q Sir, in the second paragraph, the statement
16 is made, "the bank commissioner is supportive of the
17 legislation." My understanding, or at least my
18 belief is that at this time the bank commissioner was
19 Mr. Jackson, Mr. Marlon Jackson. Mr. Nappi indicates
20 that it may still have been Mr. Ford, but in any
21 event, do you recall who was bank commissioner at the
22 time that you were interested in the 1988

1 legislation?

2 A No, sir, I do not.

3 Q And do you recall whether the bank
4 commissioner was supportive of that legislation?

5 A As indicated by Mr. Hartsfield, he was. In
6 this memo.

7 Q Yes, sir, I understand that that's stated
8 in the memorandum, I am just trying to establish
9 whether you have any independent recollection or
10 whether your recollection might be refreshed by
11 what's stated in the memorandum.

12 THE WITNESS: All I'm recalling here is
13 what Mr. Hartsfield told me.

14 MR. PORTNOY: Let's take a break for a
15 moment, sir, because the court reporter needs to pass
16 along the disk so that it can be transcribed.

17 (Discussion off the record.)

18 MR. PORTNOY: Mr. Penick, we are back.

19 BY MR. PORTNOY:

20 Q Did you ever know a person named Marcus
21 Halbrook?

22 A Yes, sir.

120

1 Q Who was Mr. Halbrook?

2 A He was director of the Arkansas Legislative
3 Council.

4 Q Do you recall that or are you simply
5 reading that from the memorandum?

6 A I am recalling it from reading the
7 memorandum. That reminded me.

8 Q So it refreshed your recollection?

9 A It did.

10 Q That's what we mean by refreshing your
11 recollection, sir.

12 A Thank you.

13 Q This memorandum indicates that Mr. Halbrook
14 will be drafting or is drafting the 1988 Omnibus
15 Banking legislation. Do you recall that to have been
16 the case, sir?

17 A I think it was, but I can't specifically
18 remember getting a draft of it from Mr. Halbrook.

19 Q Do you remember getting a draft of the
20 legislation from any other possible draftsman?

21 A I remember getting a copy of it. I just
22 don't remember from what source it came.

1 Q Do you have any recollection of anyone
2 other than Mr. Halbrook being the draftsman for the
3 legislation?

4 A I do not. No, sir.

5 Q The final line of the second paragraph says
6 a "draft copy," meaning the legislation, "will be
7 forwarded as soon as Hartsfield receives it."

8 Do you recall receiving a draft copy of the
9 legislation from Mr. Hartsfield?

10 A No, I don't. But that doesn't mean I
11 didn't.

12 Q Do you have any reason to believe that you
13 did not receive a draft copy from Mr. Hartsfield?

14 A I don't remember where it came from.

15 Q Mr. Penick, I would like you to look at the
16 last paragraph of the memorandum. In substance, sir,
17 that paragraph indicates that the independent bankers
18 believe that the 1988 Omnibus Banking legislation
19 would be, and I now quote, "better than they would
20 get under federally dictated statewide branching"; do
21 you see that, sir?

22 A Yes, sir.

1 Q Was that what you were referring to
2 earlier, when I asked you about imposed statewide
3 banking by the comptroller of the currency?

4 A Possibly, yes.

5 Q I must say, sir, I am a little confused
6 because you indicated that the comptroller of the
7 currency would have no authority to impose statewide
8 banking on state chartered institutions. But this
9 statement seems to indicate that there was some
10 prospect of federally dictated statewide branching
11 that could affect state institutions.

12 Am I misreading this, sir, or do you have a
13 different understanding?

14 A No, you are reading accurately.

15 You are presuming so -- that "federally
16 dictated statewide branching" means the comptroller
17 of the currency.

18 Q How else might statewide branching be
19 federally dictated, sir?

20 A Federal legislation.

21 Q Are you aware that federal legislation was
22 under consideration at this time to impose statewide

1 branching on state chartered institutions?

2 A There has been consideration, yes, sir, my
3 understanding.

4 Q So there was a second source of concern
5 that statewide banking might be imposed on Arkansas
6 rather than generated within Arkansas?

7 A Statewide branching might not be the right
8 description. But it would be more liberalized
9 branching than what we were accustomed to.

10 Q Would it be fair to say, then, sir, that
11 during at least this period of 1988, there was some
12 prospect that the comptroller of the currency might
13 liberalize branching rules for nationally chartered
14 banks which would have an effect in Arkansas, and
15 also that Congress might enact legislation in some
16 fashion liberalizing branch banking rules for state
17 chartered and/or federally chartered institutions in
18 the state of Arkansas?

19 A That's possible.

20 Q Sir, I would like you to look at the
21 document that appears to have been appended to those
22 file notes. It is a two-page document entitled

1 "branch bank strategies, options," do you have that,
2 sir?

3 A Yes, sir.

4 Q On the right-hand side is a category
5 "statewide branching"; do you see that, sir?

6 A Yes, sir.

7 Q I will like to you look at the enumerated
8 Section 5, actually 4 and 5.

9 A Yes, sir.

10 Q 4 states "if commissioner denies request in
11 number 2 above, which was a request to approve TCB's
12 Little Rock offices, proceed to convert TCB to a
13 national bank."

14 Was TCB considering converting to a
15 national bank at this time, sir?

16 A It was always an option that we considered
17 on various issues, to convert our charter to a
18 national charter.

19 Q If you had converted TCB into a national
20 bank, would TCB have been permitted to engage in
21 branch banking, and to have expanded its branch
22 banking throughout Pulaski County?

1 MR. HOOVER: If you know.

2 THE WITNESS: Yes.

3 BY MR. PORTNOY:

4 Q And this document would appear to indicate
5 that that would actually permit TCB to expand its
6 branch banking throughout the state; is that correct,
7 sir?

8 A Are you talking about paragraph 5?

9 Q Well, sir, paragraph 5 appears under a
10 heading entitled "statewide branching." And
11 paragraphs 4 and 5 talk about conversion to a
12 national bank.

13 Would it be a fair inference to draw, that
14 conversion to a national bank would have permitted
15 TCB to engage in statewide banking or statewide
16 branching?

17 A I don't believe so at the time.

18 Q But you could have applied to the
19 comptroller of the currency for permission to open
20 branches in other parts of the state, could you not,
21 sir, if TCB were a National Bank?

22 MR. HOOVER: Just a moment. Aren't you

1 asking him to speculate on the law?

2 MR. PORTNOY: No, sir, I am actually asking
3 him what his recollection is of what the state of the
4 law was.

5 MR. HOOVER: Isn't that speculation as to
6 what the law is?

7 MR. PORTNOY: No, sir, I am not asking him
8 what the law was. I am asking him what he recalls it
9 to have been.

10 MR. HOOVER: Okay.

11 THE WITNESS: Is this Doug?

12 MR. PORTNOY: No, it is Jim.

13 THE WITNESS: Repeat it, please.

14 MR. PORTNOY: All right. Let me start back
15 at the beginning.

16 BY MR. PORTNOY:

17 Q On the right-hand side of the page is a
18 column stating "statewide branching."

19 A I got that.

20 Q Paragraphs 4 and 5 under the heading
21 "statewide branching" concern the possibility of
22 converting TCB to a national bank?

1 A Okay.

2 Q Does that indicate to you, sir, that the
3 conversion to a national bank would have allowed
4 statewide branching in some fashion?

5 A No, sir.

6 Q It does not?

7 A No.

8 Q Would the conversion to a national bank
9 have allowed expanded branching of any kind?

10 A It's my opinion, yes.

11 Q How would that have occurred?

12 A There is a provision that the comptroller
13 used to allow branching to incorporate in communities
14 within a 30-mile radius where no main bank branch was
15 located.

16 Q I think we finished with that document,
17 sir. Sir, I apologize if Mr. Nappi asked you this,
18 but I would like it to be entirely clear on the
19 record.

20 To the best of your recollection, did you
21 ever discuss the Whitewater loan with Governor
22 Clinton?

128

1 A I cannot recall discussing it with
2 Mr. Clinton.

3 Q And do you recall ever discussing the
4 Whitewater loan with Mrs. Clinton?

5 A I cannot recall any communications with
6 Mrs. Clinton about the Whitewater loan.

7 Q You do recall that you may have written to
8 Mrs. Clinton, though?

9 A I did write Mrs. Clinton a letter.

10 Q And you don't recall receiving any response
11 to your letter, directed to you, at least?

12 A That's correct. I don't recall that there
13 was any response, written or oral.

14 Q But you did, or the bank did, at some
15 point, receive the financial statement that you were
16 inquiring about?

17 A That's correct.

18 Q Sir, at any time, did anyone affiliated
19 with TCB, its parent company or companies, or any
20 other entity, ever instruct you to provide some kind
21 of special treatment to the Whitewater loan?

22 A No, sir.

1 Q Did anyone affiliated with TCB or any of
2 its parent companies ever suggest to you that the
3 bank had some kind of influence over Governor Clinton
4 based on the fact that the bank held the Whitewater
5 loan?

6 A No, sir.

7 Q Did anyone ever suggest to you that TCB or
8 any of its parent companies or subsidiaries should
9 try to influence Governor Clinton, based on the fact
10 that the bank held the Whitewater loan?

11 A No, sir.

12 Q Did you ever suggest to anyone that the
13 Whitewater loan should receive special treatment?

14 A No, sir.

15 Q Did you ever suggest to anyone that the
16 bank should use the Whitewater loan as a way to
17 influence Governor Clinton?

18 A No, sir.

19 Q To the best of your knowledge, did the bank
20 ever seek to use the Whitewater loan as a way to
21 influence Governor Clinton?

22 A No, sir.

1 Q Sir, it's been suggested that there is a
2 connection between the bank's renewal of the
3 Whitewater loan and the enactment of the 1987 banking
4 legislation and the 1988 legislation.

5 Are you aware of any connection whatsoever
6 between those events?

7 A Not that I am aware of, no, sir.

8 Q Do you have any reason to believe that
9 there might be a connection?

10 A I do not.

11 Q So as far as you know, these events are
12 completely separate and unrelated?

13 A Absolutely.

14 MR. NAPPI: That's your current
15 recollection or are you saying that you absolutely
16 know they are not connected? Well, I guess you
17 couldn't say that.

18 MR. HOOVER: That was kind of a double
19 question.

20 MR. NAPPI: Yes.

21 MR. HOOVER: Do you want to ask it again in
22 a different form?

1 MR. NAPPI: No.

2 BY MR. PORTNOY:

3 Q Sir, to your knowledge, did anyone ever
4 suggest that the Whitewater loan should be called?

5 A Not that I can recall.

6 MR. NAPPI: By "suggest" do you mean make
7 that affirmative statement or --

8 BY MR. PORTNOY:

9 Q Did anyone ever state to you that it was
10 their view the Whitewater loan should be called?

11 A Not to my recollection.

12 Q Did you ever state to anybody that it was
13 your view that the Whitewater loan should be called?

14 A No, sir.

15 MR. PORTNOY: That's all I have, thank you,
16 sir.

17 MR. NAPPI: I just want to ask a couple of
18 follow-ups.

19 EXAMINATION

20 BY MR. NAPPI:

21 Q It is Doug Nappi again, Mr. Penick. You
22 said you first learned of the Whitewater loan as part

1 of the due diligence in the acquisition. You did not
2 actually do the loan file review.

3 Do you recall how you were apprised of the
4 existence of this loan?

5 A As best I can recall, a report came in. We
6 had all the reports from the due diligence team.

7 Q So you read a written report?

8 A Yes, sir, as I recall.

9 Q And you recall how many loans were
10 specified in that written report?

11 A No, I do not.

12 Q How do you know that you learned of the
13 Whitewater loan at that point in time? What do you
14 remember that report saying?

15 A I can't specifically recall, but generally
16 they would list loans and give a summary of loans
17 over a certain size, over certain collateral or
18 certainly there was a report on the past-due status
19 of the loans.

20 Q Did it specify that the guarantors of that
21 loan or cosigners were the Governor and his wife?

22 A I cannot recall specifically.

1 Q Okay.

2 MR. PORTNOY: One follow-up on that, sir.

3 To the best of your recollection, was the
4 Whitewater loan treated any differently in that
5 report than any other loan?

6 THE WITNESS: In which report?

7 MR. PORTNOY: In the report you read
8 following the due diligence. You indicated at the
9 time of the acquisition you learned of the Whitewater
10 loan by reading a due diligence report.

11 And I believe you also indicated that the
12 due diligence report concerned more than one loan
13 although you can't remember how many loans it
14 concerned; is that a correct statement, sir?

15 THE WITNESS: That's correct.

16 MR. PORTNOY: Was there anything special
17 about the way the Whitewater loan was identified, or
18 discussed, on that due diligence report?

19 THE WITNESS: Not that I can recall, no,
20 sir.

21 MR. PORTNOY: Thank you, that's all I
22 have.

1 EXAMINATION

2 BY MR. NAPPI:

3 Q Just a couple of more questions, maybe.
4 Wayne Hartsfield, is that his first name, Wayne?

5 A Yes.

6 Q Do you recall him ever being the president
7 of the Arkansas Bankers Association?

8 A I think he was, yes.

9 Q Was that an independent recollection, or
10 was it just refreshed by reading that record that
11 Mr. Portnoy asked you to look at?

12 A Let's get the terminology right.

13 There is an executive director, a full-time
14 employee of the Association.

15 Q Yes.

16 A And there is a --

17 Q A president who would be elected on an
18 annual or some periodic basis, more of a honorary
19 position?

20 A That's correct, that's correct. And
21 Mr. Hartsfield has been president of the Arkansas
22 Bankers Association.

1 Q So you recalled that --

2 A Yes.

3 Q -- independent of having your recollection
4 refreshed?

5 A Yes.

6 Q One more follow-up question. After you
7 resigned from Twin City, did you move to your current
8 job?

9 A Yes.

10 Q Okay, so you did not work at another bank?

11 A No, sir.

12 Q And do you recall the date of your
13 resignation?

14 A It was in April of '91. I don't know the
15 specific date.

16 MR. NAPPI: Okay, thank you very much.
17 Let's go off the record.

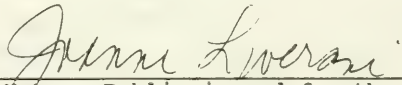
18 (Whereupon, at 1:50 p.m., the deposition
19 was concluded.)
20
21
22

EDWARD M. PENICK, JR.

CERTIFICATE OF NOTARY PUBLIC & REPORTER

136

I, JOANNE LIVERANI, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires

JULY 31, 2000

**DEPOSITION OF W. NEIL EGGLESTON
IN RE: S. RES. 120**

SATURDAY, MAY 4, 1996

**U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.**

Deposition of W. NEIL EGGLESTON, called for examination pursuant to notice of deposition, at 10:10 a.m. in Room 640-A of the Hart Senate Office Building, before CINDY L. SEBO, a Notary Public within and for the District of Columbia, when were present:

VIET D. DINH, Esq.
Majority Associate Special Counsel
NEAL E. KRAVITZ, Esq.
Minority Principal Deputy Special Counsel
TIMOTHY P. MITCHELL, Esq.
Minority Professional Staff Member
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

WILLIAM J. MURPHY, Esq.
Murphy & Shaffer
Suite 750
Baltimore, MD 21202-1019
On behalf of the Deponent.

CONTENTS

WITNESS

EXAMINATION

W. Neil Eggleston

by Mr. Dinh 3

1 PROCEEDINGS

2 Whereupon,

3 W. NEIL EGGLESTON

4 was called as a witness and, having first been duly
5 sworn, was examined and testified as follows:

6 EXAMINATION

7 BY MR. DINH:

8 Q Mr. Eggleston, thank you for coming in
9 today. As you know, this deposition is conducted
10 pursuant to Senate Resolution 120. The resolution
11 establishes the special committee administered by the
12 Senate Banking Committee to conduct an investigation
13 into Whitewater Development Corporation/Madison
14 Guaranty Savings and Loan Association and other
15 related matters.16 Your testimony today will be under oath.
17 And the stenographer will prepare a request of
18 questions and answers. This deposition is made in
19 advance of public hearings.20 As I advised you prior to our going on the
21 record, we do not anticipate to call you at any such
22 public hearings at this time. But if that changes,

4

1 we will notify you in advance.

2 This transcript will be treated as
3 committee confidential in the commencement of any
4 such hearings at the time it may be made public in
5 whole or in part.6 Prior to the hearings, you will receive a
7 letter from the committee telling you that you may
8 come to the Senate to review the transcript of your
9 deposition, and make note of any corrections in the
10 transcription on an Errata sheet.11 That's for the limited purpose of reviewing
12 the transcript, any information is not to be
13 disclosed for any other reason.14 Mr. Eggleston, you may be represented by
15 counsel. And I see your counsel, Mr. Murphy, is
16 here.17 Pursuant to the procedures set forth in
18 Resolution 120, objections as to the form of the
19 questions will be noted for the record. And your
20 counsel may instruct you not to answer a question on
21 the grounds of privilege and scope.

22 The committee chairman will rule on

1 objections where the witness refuses to answer a
2 question.

3 Just for the record, can you give me your
4 name?

5 A W. Neil Eggleston.
6
7
8
9
10

11 Q And where do you work now?

12 A I work at a private law firm here in
13 Washington, D.C.

14 Q And when were you employed by the White
15 House?

16 A Sometime in September 1993 to sometime in
17 September 1994.

18 Q And what was your position in that one-year
19 period?

20 A I was associate counsel to the President.

21 Q Let me direct your attention,
22 Mr. Eggleston, to the period January 1994.

1 Were you part of a team of White House
2 officials designated to respond to Whitewater-related
3 stories or actions?

4 A Generally, yes. I mean I don't -- I don't
5 know that we were designated, and I'm not sure I
6 completely agree with your description. But, yes,
7 there was a group of people in the White House that
8 participated in responding to Whitewater activities.

9 Q Was there a name for this group?

10 A No.

11 Q Okay. Was it generally known as the
12 Whitewater team?

13 A Not necessarily to me.

14 Q Or the Whitewater group?

15 A I don't remember us having a name.

16 Q Were there memos going out to this
17 Whitewater group?

18 MR. MURPHY: Were there memos going out?

19 BY MR. DINH:

20 Q To this Whitewater group, if you recall.

21 MR. MURPHY: From whom?

22 MR. DINH: From other members of the

1 group.

2 THE WITNESS: I don't recall. I would be
3 happy to look at anything you've got, but I don't
4 specifically recall.

5 BY MR. DINH:

6 Q I'll just direct your attention to
7 SO20888. It is a memorandum to Harold Ickes
8 addressed to the Whitewater group re: assignments.

9 A I see it.

10 Q Do you recall receiving such memorandum?

11 A Let me take a look at it.

12 (Witness reviews the document.)

13 MR. KRAVITZ: Which date is that memo?

14 MR. MURPHY: 9th of January 1994.

15 MR. KRAVITZ: Okay.

16 MR. MURPHY: I'll note the group has a
17 small G on it.

18 THE WITNESS: I don't remember receiving
19 this.

20 BY MR. DINH:

21 Q Okay.

22 A I'm not saying I didn't, but I don't

1 remember receiving it.

2 Q Okay. How about the next -- the similar
3 memorandum Bates stamp S20760, again from Harold
4 Ickes to the Whitewater group with a small G dated 10
5 January 1994?

6 A Again, I don't remember receiving this.

7 Q Okay.

8 A I may have, but I don't remember receiving
9 this.

10 Q During this period, that is, in early
11 January 1994, were you involved in meetings with
12 others in the White House relating to
13 Whitewater/Madison?

14 A Yes, I was.

15 Q If you recall generally who were the people
16 in these meetings that were regular in
17 the -- regularly in these meetings?

18 A Mr. Ickes in the January time frame,
19 particularly early January; Mr. Nussbaum, myself. I
20 think Ms. Williams may have attended on occasion;
21 although, I'm not sure I would call her -- I don't
22 remember that she was a regular attender.

1 Mr. Lindsey, on occasion. I'm not sure
2 Mr. Lindsey was there all the time. I'm sure there
3 were others. But I just don't -- I mean I'm sure
4 there were others, but I can't think of anybody
5 else.

6 But certainly I remember that group as
7 attending at least periodically. And I don't know
8 that I attended all of them.

9 Q Okay. Well, we'll try to refresh your
10 memory with respect to specific meetings.

11 A Yes.

12 Q Did you take notes at any of these specific
13 meetings?

14 A I don't remember taking any notes.

15 Q Were they daily meetings?

16 A Well, a little bit of this is on a time
17 frame. Early January I think they were pretty
18 frequent. I don't have a recollection that they were
19 daily, but they were frequent I think after the
20 President requested the appointment of an independent
21 counsel, they -- or special counsel, I think we had
22 much less often, that's my recollection.

10

1 Q I'm going to refer you to a set of
2 handwritten notes that are Bates stamp S20564
3 consecutively to S20579.

4 And let me represent to you that these
5 notes were taken by participants at the -- by a
6 participant of the meetings that were taking place
7 relating to Whitewater/Madison in January of 1994.

8 MR. KRAVITZ: I'm sorry, Viet, how did you
9 identify these? Taken by one of the participants?

10 MR. DINH: One of the members, one of any
11 participants.

12 MR. KRAVITZ: Is there any reason why we
13 can't tell Mr. Eggleston which participant took the
14 notes.

15 MR. DINH: No.

16 THE WITNESS: I assume these are Mark
17 Gearin's.

18 BY MR. DINH:

19 Q They are. Let me direct your attention to
20 the first page of that set of notes, S20564.

21 A Now, you've told me these are January 4th
22 or at least he's testified to January 4th?

1 Q Well, they are of a number of various dates
2 on different pages. I will refer to the dates of the
3 applicable meeting as we go through them.

4 A Okay. Thank you.

5 Q The first page, as you correctly
6 identified, at the top says 4 January, Mac's office.
7 And so I think that Mr. Gearin has testified that
8 these are accurate notes of the January 4th meeting.

9 MR. KRAVITZ: Just for the record, I'm not
10 sure that that's accurate. What Mr. Gearin has
11 testified is that these are notes that he took at
12 that meeting. I don't think that -- I don't think
13 you should understand from what Viet just said that
14 Mr. Gearin has testified that these are in any way a
15 verbatim transcript of the meeting or accurate in
16 that sense.

17 THE WITNESS: Okay.

18 BY MR. DINH:

19 Q I think it's rather obvious when we go
20 through the notes, they were not verbatim
21 transcripts.

22 A Okay.

1 Q Can you -- let me direct your attention to
2 the third line down on the set of notes there where
3 it says Neil.

4 A Yes.

5 Q And in the interest of saving time, I will
6 just read the -- read this since we have them
7 transcribed from handwriting.

8 MR. DINH: And, Counsel, please feel free
9 to correct me if any of the transcription is
10 erroneous.

11 MR. KRAVITZ: I won't be shy.

12 MR. DINH: You never are, Neil.

13 BY MR. DINH:

14 Q It reads, Neil dash, docs the DOJ, then
15 questions, QSTNS, turn up and not off, continued
16 questions for release.

17 A Could I just ask you, has Gearin told you
18 that's what it says, because I wouldn't necessarily
19 read that, if it says that. I would just like to
20 know whether that's your guess of what it says or
21 whether Mr. Gearin has told you that's what it says.
22 I don't know if you have to answer that question.

1 MR. KRAVITZ: I can answer that question,
2 Neil. In his deposition, which I was present, he was
3 asked to read his entire set of notes. I can't tell
4 you whether that's what he said that means, I just
5 don't remember.

6 MR. DINH: Likewise --

7 MR. KRAVITZ: I can tell you when he has
8 QSTNS, that does mean questions. When he says OFF
9 period, I'm not sure what that means. I just don't
10 remember.

11 THE WITNESS: I'm sorry. Could you just
12 read it to me again, because it didn't actually make
13 sense?

14 BY MR. DINH:

15 Q It says docs to DOJ, then questions turn up
16 and not off.

17 MR. MURPHY: And not off period.

18 BY MR. DINH:

19 Q O-F-F, period, continue questions for
20 release.

21 MR. MURPHY: I would observe that the
22 second word or scribble doesn't look like questions

14

1 to me. It doesn't look like QSTNS either.

2 THE WITNESS: It doesn't to me either. But
3 in any event, this doesn't sound like the way I
4 talk.

5 MR. MURPHY: I don't know. I might
6 disagree with that.

7 THE WITNESS: You've seen some transcripts
8 of me in court?

9 BY MR. DINH:

10 Q First of all, let me just ask you if you
11 recall this meeting.

12 A I recall a meeting in Mac's office. I
13 don't -- I can't tell you that that's this particular
14 meeting.

15 Q You can't recall the specific date of that
16 meeting in Mac's office?

17 A No, it would have been sometime in early of
18 January of '94. It would have been sometime in early
19 January, before January 12th or whatever the day was.

20 Q So it's consistent?

21 A That the note was --

22 Q It's consistent --

1 MR. MURPHY: Do you want to finish your
2 answer?

3 THE WITNESS: It's sometime before January
4 12th, which is the day that I think that Mr. Nussbaum
5 sent a letter to the Attorney General, but I can't
6 tell you the meeting. I don't remember the specific
7 meeting. But I remember a meeting in Mac's office.

8 BY MR. DINH:

9 Q Do you remember saying words to the effect
10 that documents were turned over to DOJ, and then were
11 returned back at or about -- I am sorry. I'm sorry.

12 Do you recall saying generally that
13 documents were delivered to the DOJ?

14 A I don't remember saying this. I kind of
15 remember this issue, but I don't remember saying -- I
16 don't remember saying this at the meeting. I
17 remember that an issue regarding this had come up in
18 early January.

19 Q Okay. And can you state generally just
20 what the issue is?

21 A I think that somebody had represented to
22 the press that the documents had been turned over.

1 And, in fact, these were documents in Mr. Kendall's
2 possession that I remember.

3 And Mr. Kendall was just taking longer than
4 whatever day I remember this issue taking place. But
5 they had not yet been turned over or at least they
6 hadn't been completely turned over.

7 And the issue was that we said something
8 that was -- something inaccurate to the press and we
9 had to correct it. I don't remember saying this, but
10 I generally remember that that issue was on the table
11 around that time.

12 Q Okay. Let me direct your attention to the
13 next page S020564.

14 A 565.

15 Q I'm sorry, 565. And again in approximately
16 the middle of the page there where it says Neil.

17 A Yes.

18 Q Again attempting our best recreation of
19 Mr. Gearin's handwritten, I think it says turning
20 over papers dash, brought Congressional, CONG'L,
21 credibility.

22 MR. KRAVITZ: Excuse me, Viet, I think it

1 says bought as opposed to brought.

2 MR. DINH: I'm sorry, bought, you're
3 right.

4 BY MR. DINH:

5 Q Bought Congressional credibility for a week
6 or so. Do you remember saying this at the meeting?

7 A No.

8 Q Do you remember generally what it pertains
9 to?

10 A Well, let me just think about it for a
11 second. Not immediately.

12 MR. KRAVITZ: Mr. Eggleston, you should,
13 obviously, take as much time as you want to read the
14 rest of the notes. It may help you put it in
15 context.

16 THE WITNESS: Maybe that's a good idea.
17 Thank you, Mr. Kravitz.

18 MR. KRAVITZ: Viet, if you wanted to give
19 him your typewritten version, that might make it
20 easier, too.

21 THE WITNESS: Do you mind? Yours are in
22 yellow, I figured you're going to direct my attention

1 to all of those anyway.

2 BY MR. DINH:

3 Q That's exactly right. I was trying to see
4 whether I had anything in there. They would all be
5 in Vietnamese as well. You wouldn't understand them
6 as well.

7 MR. MURPHY: That's a good trick. I also
8 write in Vietnamese, according to my secretary.
9 (Witness reviews the document.)

10 THE WITNESS: I mean I could speculate. I
11 don't remember this. It doesn't make much sense.

12 BY MR. DINH:

13 Q I don't want you to speculate. Okay. Do
14 you recall -- let me direct your attention to the
15 next page of the notes, 20566. And the middle of the
16 page there where it says, HRC enters, it looks like a
17 meeting, MTG, it might be interested in -- interested
18 is INTRSTD, actually "in" is not there. It's not on
19 the note, maybe interested dash.

20 Do you recall the First Lady entering the
21 meeting in Mr. McLarty's office?

22 A Again, I couldn't specifically tell you

1 it's this meeting, but I remember a meeting in
2 McLarty's office on the issue of Whitewater where the
3 First Lady walked in.

4 Q Was that the only meeting related to
5 Whitewater that you attended in the January time
6 frame that Mrs. Clinton walked in?

7 A Yes.

8 Q Can you just give us your recollection of
9 Mrs. Clinton walking into the meeting?

10 A I remember we were in McLarty's office and
11 she just walked in. I think my impression was that
12 she was going to talk to Mac about something else,
13 had no idea we were there, looked around. And I
14 remember her saying something like this looks like a
15 meeting I might be interested in.

16 Q And did she stay in the meeting?

17 A I think she stayed in the meeting, yes.

18 Q Did she participate, do you remember?

19 A She stayed for a while. I don't know if
20 she stayed until the end.

21 Q Did she participate in any of the
22 discussions --

20

1 A Yes.

2 Q -- that you were engaging? Do you recall
3 the substance of her comments, if any?

4 A Let me just think for a second.

5 (Pause.)

6 THE WITNESS: I think that she
7 generally -- all I really remember is that she
8 generally thought that we should become more active
9 in responding to the allegations and being
10 affirmative in our response to the -- really by this
11 time was a deluge of press and Congressional attack.

12 BY MR. DINH:

13 Q And you said the allegations. Do you
14 recall generally what those allegations are?

15 A I don't remember. I remember they
16 generally relating to Watergate.

17 Q Whitewater?

18 A I'm sorry, Whitewater fraudulent. I think
19 Watergate is written right in front of me which is
20 why I said it.

21 MR. MURPHY: It says Watergate Committee.

22 MR. KRAVITZ: Just so the record is clear,

1 those are Gearin's notes you're pointing to which say
2 Watergate Committee?

3 THE WITNESS: That's 20566 which say
4 Watergate Committee. I can't today remember which
5 issues were on the table back in early January,
6 because there have been so many issues since then.

7 I mean if I went back and reviewed the
8 press, I could. But I don't remember which of the
9 sort of never-ending stream of allegations had arisen
10 by that time.

11 BY MR. DINH:

12 Q Okay. Well, I'm trying to refresh your
13 memory with respect to that a little bit later on.

14 A Sure.

15 Q Let's continue on through the notes here.
16 The next page is the 5 -- actually S20567. At the
17 top says Whitewater meeting 5 January.

18 Do you recall attending a meeting the next
19 day after the one that -- in Mr. McLarty's office?

20 A I don't remember there was a meeting the
21 next day. I think I told you generally there were
22 frequent meetings at this time. I'm not surprised

22

1 that there was a meeting the next day.

2 Again, I'm -- unless you see my name in
3 here or something, just because there was a meeting
4 the next day doesn't mean I attended.

5 Q Right. Let me just direct your attention
6 to the -- that page again, S20567, the first page of
7 the 5 January meeting at the top where it says
8 Bernie --

9 A Yes.

10 Q -- and then continuing down. If you can
11 just study that for a second.

12 A How far down do you want me to look?

13 Q To the end of the paragraph starting with
14 bad hearted.

15 A Okay.

16 (Witness reviews the document.)

17 THE WITNESS: Okay.

18 BY MR. DINH:

19 Q Now that you've had a chance to study the
20 notes of that meeting, do you recall attending a
21 meeting where Mr. Nussbaum expressed the view
22 recorded here bad hearted guy goes in and decides a

1 smell of corruption and can show some things of those
2 people close around principals?

3 MR. MURPHY: Objection to the predicate to
4 your question which is that Mr. Eggleston studied the
5 notes. He glanced at the notes.

6 But other than that, you can answer the
7 question.

8 THE WITNESS: I remember hearing Bernie
9 express that. I'm not sure I can tell you that it
10 occurred at this meeting on January 5th. But I
11 remember that that was an expression that Bernie,
12 Mr. Nussbaum, had about the appointment of
13 independent counsel.

14 BY MR. DINH:

15 Q Okay.

16 A I notice on these notes my initials do not
17 appear. So I can't tell from looking at the notes at
18 least whether I attended this meeting. And I don't
19 otherwise have any specific recollection of the
20 meeting. But I remember that this was a -- something
21 that Bernie would say periodically at this time.

22 Q And can you state in your own words what

24

1 Mr. Nussbaum's view was with respect to this issue?

2 A Just identify for me the issue again.

3 Q I'm sorry. You said his sentiments
4 regarding bad hearted guy goes in and decides a smell
5 of corruption and can show some things of those
6 people close around principals.

7 Just in your own words what you understand
8 Mr. Nussbaum views were with you on that particular
9 quotation because it's not very clear.

10 A Let me make what I said clear, what I
11 remember talking generally about were his concerns
12 about the independent counsel. I didn't mean to
13 suggest that I remembered specifically this issue
14 about bad hearted guy.

15 I don't remember him using the expression
16 bad hearted guy. But I generally remember that he
17 was -- he was concerned that independent counsel
18 virtually has unchecked power, and that a person who
19 is improperly not voted or politically motivated or
20 motivated for personal aggrandizement and act in an
21 unprofessional fashion and hurt people, that was my
22 recollection of what he was concerned about.

1 If he had people motivated by political
2 factors or personal aggrandizement or whatever, they
3 could -- they could improperly hurt people. That's
4 what he was worried about; that's my recollection.

5 MR. KRAVITZ: Can I just ask one question
6 for clarification?

7 MR. DINH: Sure.

8 MR. KRAVITZ: Mr. Eggleston, before
9 Mr. Dinh read to you this entire paragraph that began
10 with bad hearted guy and finished up with -- well,
11 let me just say bad hearted guy goes in and decides a
12 smell of corruption and some things of those people
13 close around principal, I believe his initial
14 question to you was, do you remember Mr. Nussbaum
15 talking about or making that point or points similar
16 to that.

17 And I think your initial answer was I
18 remember Mr. Nussbaum making that point or saying
19 something similar to that. And then later when
20 Mr. Dinh asked you what your general -- what your
21 recollection of what Mr. Nussbaum said, you mentioned
22 that you hadn't -- that you don't remember

1 Mr. Nussbaum actually using the term, quote, bad
2 hearted guy.

3 My question is, do you remember
4 Mr. Nussbaum saying that an independent counsel would
5 find a smell of corruption and could show some things
6 of those people close around principals?

7 Do you remember him saying anything like
8 that -- I mean, do you remember him using those
9 words?

10 THE WITNESS: Well, let me -- I don't
11 remember him using these particular words. But I
12 mean I remember his concern was that someone could
13 come in and find something or claim that there's
14 something where there wasn't anything.

15 And that that was -- and because
16 independent counsel or special counsel essentially
17 under the old law, at least, this was a time where we
18 didn't have the law, had essentially unchecked
19 power. They could just do whatever they wanted, that
20 the wrong person improperly motivated could
21 really -- could, you know, do whatever they wanted,
22 and could find something where there wasn't anything

1 and whatever. I think that's what I remember him
2 talking about.

3 MR. KRAVITZ: Okay, thanks.

4 BY MR. DINH:

5 Q Let me direct your attention to, skipping
6 ahead to S20575.

7 A 575?

8 Q Yes. And this states at the top Whitewater
9 1/7/94.

10 A The other one was on the 5th?

11 Q Yes. And I'll ask you to look that over.
12 And I'll show you my typewritten document, if that
13 helps.

14 MR. MURPHY: It's a funny looking one.

15 THE WITNESS: It is, isn't it?

16 (Witness reviews the document.)

17 THE WITNESS: Okay.

18 BY MR. DINH:

19 Q Okay. Let me direct your attention to V on
20 S020575, the bottom of the page there.

21 A Yes.

22 Q And let me read that into the record here

1 it says, PB, BL, Waldman arrow to ARK, A-R-K, to
2 meet. And I think that's a symbol that Mr. Gearin
3 has testified to means with, Beverly Bassett. Next
4 line try to poke holes in their story.

5 First of all, do you recall this meeting on
6 the 7th of January 1994?

7 A Kind of the same with this as the others,
8 which is, I just can't place specific meetings.

9 Q Do you recall a meeting in which Beverly
10 Bassett was discussed?

11 A I am sure I attended meetings where Beverly
12 Bassett was discussed.

13 Q Okay. Do you recall this specific, the
14 instance where someone expressed that PB, which is I
15 guess that -- Mr. Gearin has testified to is Paul
16 Begala, BL, Bruce Lindsey and Waldman, Michael
17 Waldman, should go to Arkansas to meet with
18 Ms. Bassett.

19 MR. KRAVITZ: Can you repeat that
20 question? I'm not sure that's consistent with the
21 testimony.

22 MR. DINH: Can you read that back?

1 (The reporter read back the portion as
2 requested.)

3 MR. KRAVITZ: I have to say yet I don't
4 think that's consistent with any of the testimony
5 about this conversation, particularly Mr. Gearin's
6 testimony.

7 I think he testified that there was a
8 discussion about whether some White House official,
9 including one of these three or -- actually I guess
10 only Lindsey and Waldman were White House officials
11 and Begala was a consultant at some point to the
12 Clintons.

13 But there was a discussion about whether
14 someone might -- whether they might send someone to
15 go to Arkansas to meet with Ms. Bassett. I think
16 that's more consistent with the testimony.

17 MR. DINH: Just for the record, I was
18 merely asking him if he recalled anybody saying
19 this. I expressed no views as to what the testimony
20 is or any representation as to what testimonies are.

21 MR. MURPHY: Well. Your question implied
22 that someone was directing someone to go. But with

30

1 that understanding.

2 BY MR. DINH:

3 Q Do you recall anybody directing anyone to
4 go?

5 MR. KRAVITZ: And it may make sense --
6 actually, I'm sorry. It may make sense to read the
7 remainder of the relevant notes, it may refresh your
8 memory.

9 MR. DINH: He has. He has gone through
10 that at the beginning of this iteration.

11 THE WITNESS: I don't remember anybody
12 directing anybody to go down to meet with
13 Ms. Shaffer.

14 BY MR. DINH:

15 Q Do you remember a general conversation or
16 discussions about people going down to meet with
17 Ms. Beverly Bassett Shaffer?

18 A Right. When I said Ms. Shaffer, I meant
19 Beverly Bassett Shaffer. I remember thinking at the
20 time and people saying at the time -- again, I don't
21 remember the specific -- I can't -- you know, I just
22 can't remember the specific meeting, that it was on

1 the 7th or something.

2 But I remember that this issue of Beverly
3 Bassett, now that I see it, must have been an
4 important issue by then, and that's what she had to
5 say about this issue was important. I don't remember
6 anybody directing anybody to go down and meet with
7 her.

8 Q Right. Do you remember any discussions
9 about -- leaving aside any directions to anybody, but
10 any discussions about White House officials or
11 consultants affiliated with the White House to meet
12 with Ms. Shaffer?

13 A I just don't.

14 Q Let me direct your attention to the next
15 page 20576.

16 A Could I just -- since my -- I'm sorry. But
17 one of the problems I have is that a lot of time has
18 passed and a lot of it has been public, and last
19 January I sat next to Bruce Lindsey in a hearing
20 where he testified about a meeting with Archie
21 Shaffer in a basketball game.

22 So I just have trouble since so

1 many -- there was an episode regarding the
2 airports --

3 MR. MURPHY: Which airport did they land
4 in?

5 THE WITNESS: -- the subjects of which I
6 never quite figured out. But I just -- I found as
7 time has gone on and as I participated in various
8 hearings and I read reports, I'm having more and more
9 trouble of what I knew and at what point what
10 happened in a particular meeting.

11 And I just want to say -- because I sat
12 next to Lindsey as he testified about meeting with
13 Archie Shaffer and was questioned for an hour about
14 it. So I'm just having increasing difficulty keeping
15 it all sort of what I knew when and what happened at
16 particular meetings straight, because I keep hearing
17 about other meetings and reading about them in the
18 paper. And I just wanted to tell you that.

19 BY MR. DINH:

20 Q We're just trying to get your best
21 recollection.

22 A I agree. And I'm trying to give you my

1 best recollection. But it's getting harder and
2 harder as the investigations go on to sort of parse
3 out what I knew and actually identify what I remember
4 taking place at a particular meeting because so much
5 gets written.

6 And I'm sure I read the stories after
7 Gearin and Ickes testified. And so I'm just having
8 trouble reading what I actually knew then as opposed
9 to what I may have learned since then through the
10 press or whatever. I'm sorry.

11 Q It's quite all right. Thank you very much
12 for that clarification.

13 Let me direct your attention to the next
14 page which is 20576. The bottom of the page there
15 where the notation is HI for Harold Ickes dash
16 meeting of attorneys outside of WH, White House. Bev
17 Bassett is so expletive important. If we expletive
18 this up, we're done. Let's not talk it to death,
19 let's just get it done.

20 Do you recall Mr. Ickes expressing this
21 sentiment?

22 A Is this one sentiment or two sentiments?

1 What I really mean is the meetings of attorneys
2 outside of White House would seem to be a different
3 sentiment.

4 Q Two sentiments. Do you recall him
5 suggesting a meeting of attorneys outside of the
6 White House?

7 A I don't.

8 Q What about the next sentiments that
9 Mr. Bassett is very important -- is very important?

10 A Again, I don't particularly remember this
11 meeting; although, I may be remembering this from the
12 meeting. But I remember the issue of Beverly
13 Bassett, and that she -- what she had to say about
14 her role in whatever, in '85 or '86 was significant
15 to this matter.

16 I remember that being important. I don't
17 remember -- there's no way to remember every time
18 Harold uses an expletive, because he doesn't use
19 sentences without expletives.

20 In fact, there's been a lot of attention on
21 the use of these words. But this is not an unusual
22 way -- this is not a particularly emphatic way for

1 Harold Ickes to talk. But I generally remember this
2 issue of her statements about her role in '85 or
3 whenever it was, I lost track of whenever it was, was
4 important in how this would be resolved.

5 Q Do you recall that it being so important as
6 the notes reflect, if we expletive this up, we're
7 done, that is suggesting to a point it being
8 critical?

9 A I don't -- it's the reference to if we F
10 this up, we're done. I have no recollection of
11 that. I mean people recognize that if she were
12 suddenly to change what she had said publicly and --
13 for a long time and change her story about it, that
14 that would be a bad development. But I don't
15 remember anything about if we F this up, we're done.

16 Q Let me direct your attention to the next
17 page, 020577. It's a continuation of Mr. Ickes.
18 Again, it says HI, we can't send PB, BL, MW, Michael
19 Waldman dash, it'll come out.

20 Do you recall him expressing that sentiment
21 during these discussions?

22 A I just don't remember. It sure makes

1 sense, but I don't specifically remember it --

2 Q Okay.

3 A -- him saying that.

4 Q Going down a couple lines from the page.
5 Let's read the next line item by item, make sure her
6 story is okay, and then there seems to be a listing
7 of three different names or individuals, Tysdale
8 question mark, and Lindsey firm, next line, skip,
9 question mark, WH pass. Next line, PB friend, NY,
10 New York lawyer, question mark.

11 Do you recall generally a discussion as to
12 different individuals who may be -- may meet
13 Ms. Shaffer?

14 A This all seems to fit together and makes
15 sense, but I don't actually remember this
16 discussion. It makes sense if somebody had said
17 let's send down Michael Waldman to meet her, I
18 probably would have said I wouldn't think that's a
19 very good idea. Not because there was anything wrong
20 with it, but because we'd read about it in the
21 paper. But I don't actually remember this.

22 Q You don't remember discussions regarding

1 Mr. Tysdale meeting Ms. Shaffer?
2 A I just -- I can't -- I can't remember that
3 from that.
4 Q Next line, which is the next line skip --
5 A Right. I just don't particularly remember
6 that -- I mean this sort of implies that we were
7 thinking of some way to talk to her and talk about a
8 way -- a specific way to do it. I just don't
9 remember. I remember that she was important. I do
10 remember that.
11 Am I done with this?
12 Q Yes. You can read it further.
13 A No, no, that's all right.
14 Q Let me direct your attention to a document
15 Bates stamp 012577, which is a January 3rd, 1994
16 memorandum --
17 A Okay.
18 Q -- from Neil Eggleston to Joe Klein
19 re: possible course of action in Whitewater.
20 A Right.
21 Q Let me ask you to take a look at that. Do
22 you remember drafting this memorandum?

1 A Just give me a second.
2 Q Okay.
3 (Witness reviews the document.)
4 MR. KRAVITZ: What is the Bates number on
5 that?
6 MR. DINH: S012577.
7 MR. KRAVITZ: Which is one page?
8 MR. DINH: It's two pages.
9 THE WITNESS: You asked me whether I
10 remember this. I do.
11 BY MR. DINH:
12 Q You do. And you prepared it?
13 A Yes.
14 Q Okay. Let me direct your attention to the
15 third paragraph there.
16 A Yes.
17 Q Can you read the -- actually, I was going
18 to the first two sentences. But there are only two
19 sentences in that paragraph.
20 A Do you want me to read the whole
21 paragraph?
22 Q Into the record.

1 A "Nevertheless, numerous allegations are
2 still being repeated in the press that we do have the
3 ability to address information concerning the Rose
4 law firm and possible conflicts of interest.
5 Mrs. Clinton's receipt of fees from Madison and the
6 circumstances surrounding the appointment of Beverly
7 Basset Shaffer, security commissioner, in actions and
8 supervising Madison are all examples on issues on
9 which we were being criticized but where answers
10 should be available."

11 Q Do you recall these issues or the ones --
12 among the ones being on the table at that time?

13 A I mean I don't actually remember. But I
14 have no reason to doubt that I got them right here in
15 the memo. I'm sure they must have been.

16 Q You're a very good issue spotter.
17 MR. MURPHY: Read the papers.
18 THE WITNESS: I read those papers.
19 BY MR. DINH:

20 Q But you remember the allegation regarding
21 the Rose law firm and possible conflicts of interest
22 which is one of the things you listed here?

40

1 A You know, I don't mean to be
2 nonresponsive. I'm sure I got the ones that were the
3 hot issues in this paragraph. Without looking at
4 this paragraph, if you were to say what -- I guess
5 you did earlier, what are the hot issues, I wouldn't
6 have remembered.

7 This doesn't actually refresh my
8 recollection that these were the hot issues, but I'm
9 certain that they were, among others. I mean the
10 paragraphs do have additional issues, but what I
11 really thought there was not too much we could do
12 about that.

13 MR. MURPHY: Past recollection recorded.

14 THE WITNESS: I was going to go to past
15 recollection. 803.

16 MR. MURPHY: Whatever.

17 THE WITNESS: 6.

18 MR. MURPHY: It's business records.

19 THE WITNESS: 5.

20 MR. MURPHY: 803.1 of the Maryland rules.

21 BY MR. DINH:

22 Q All right, thank you very much.

1 MR. MURPHY: You can read it to the
2 committee, but we cannot admit it into evidence.

3 MR. KRAVITZ: Rules of evidence apply at
4 varying levels of --

5 MR. MURPHY: Sure.

6 MR. KRAVITZ: Shear justice.

7 BY MR. DINH:

8 Q Let me direct your attention to S009908
9 consecutively through 9911, a four-page document.
10 January 17th, 1994. A memorandum from Harold Ickes
11 from Eggleston re: statute of limitations and actions
12 brought by the conservator of a financial
13 institution.

14 And I'd ask you to take a look at that.

15 MR. MURPHY: Off the record.

16 (Discussion off the record.)

17 THE WITNESS: I reviewed this document
18 dated January 17th, and I recognize it.

19 BY MR. DINH:

20 Q Okay. Did you prepare the document?

21 A Yes.

22 Q Okay. Did Mr. Ickes ask you to prepare

1 this document?

2 A I don't remember that he asked me to
3 prepare the document, but it was definitely an issue,
4 substantial issue at the time. And I -- it's
5 possible, I don't remember him asking me to prepare
6 it, but I wrote it.

7 Q When you said a substantial issue at the
8 time, was that the statute of limitations relating to
9 claims brought by -- claims brought by the RTC
10 relating to the failure of Madison Guaranty?

11 A That's -- I mean I guess I should be more
12 precise. Sometime around this time was when Senator
13 D'Amato was on the floor every day. And he had this
14 big calendar, all that. I don't remember.

15 And the issue we had started to hear I
16 think around this time that this was going to be a
17 Congressional area of attack even if -- I just don't
18 remember whether he was actually on the floor by
19 January 17th with his calendar, but...

20 Q But certainly by January 17th, 1994, you
21 had identified it or at least others in the White
22 House had identified it as a relevant issue with

1 respect to the Whitewater/Madison matter?

2 A Yes. In fact, I'm sorry, I should have
3 read it more carefully. The first sentence actually
4 says, there has been substantial discussion by
5 Republican members of Congress about the statute of
6 limitations.

7 So I've actually identified that as of this
8 date the Republicans had already begun to -- their
9 attack on this issue. So this is a response
10 essentially to tell Harold Ickes what it is they're
11 talking about.

12 Q Okay. And this was dated January 17th,
13 1994?

14 A Yes.

15 Q Did you discuss with Mr. Ickes this
16 memorandum with him after you had turned it into him?

17 A I don't recall. I don't think that I did.
18 I don't even know that he read it. But I don't think
19 that I ever discussed it with him.

20 Q But you did send it to him?

21 A Yes.

22 Q Did you discuss the issue with Mr. Nussbaum

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1 who is CC'd on the memorandum?

2 A I'm sure I discussed the issue of the
3 statute of limitations with Mr. Nussbaum. I don't
4 actually remember. Mr. Nussbaum was my supervisor.
5 So as a general matter, if I sent something to
6 Mr. Ickes, I sent a copy to Mr. Nussbaum.

7 I didn't report to Mr. Ickes. I don't
8 remember whether I discussed this memo with
9 Mr. Nussbaum. But I'm certain I discussed the issue
10 of the statute of limitations with Mr. Nussbaum.

11 Q Outside of this memo, do you remember
12 discussing the issue of statute of limitations with
13 Mr. Ickes?

14 A No.

15 MR. KRAVITZ: Let me just clarify that. I
16 mean Mr. Eggleston has testified at length over the
17 past two years about a meeting that he attended on
18 February 2nd, 1994 which that subject was discussed.
19 I just want to make sure there wasn't --

20 THE WITNESS: Thank you. I was really
21 thinking at or about in connection with this memo
22 when I was answering it. Obviously, I have had

1 a -- the opportunity to talk about the statute of
2 limitations at great length before this committee.

3 And so -- but when I answered that
4 question, I was really referring to, you know, around
5 January 17th and in connection with this memo.

6 BY MR. DINH:

7 Q Okay. Actually, let me refer you back to a
8 document we had looked at earlier, that is one of the
9 two memorandums for -- one of the two memoranda dated
10 January 9th and January 10th --

11 A I have them in front of me.

12 Q -- of 1994, the Whitewater group.

13 A Are these your copies? Do you need them?

14 Q No, it's the only copies. I want you to
15 take a look at them. Let me direct your attention to
16 item number 11 on both the S20888 and S20760 --

17 A Right.

18 Q -- and ask you to read that into the
19 record.

20 A On the memorandum dated 9 January '94
21 paragraph number 11 says, "memo raised statute of
22 limitations for civil actions (counsel assigned 1/8,

1 footnote 2)." On the memo dated 10 January 1994
2 which is 20760, the other one was 20888, it says,
3 Paragraph 11 says, "memo raised state of limitations
4 for civil actions (counsel-assigned 1/8, footnote
5 2)."

6 Q Does that refresh your memory with respect
7 to whether Mr. Ickes had assigned you the task of
8 preparing a memorandum on the statute of limitations?

9 A It doesn't. And actually it almost -- it
10 almost leads me to conclude it didn't, because I
11 think it would be quite unlikely that I would wait
12 from the 8th to 17th to respond to a request from
13 Mr. Ickes, that's longer than Mr. Ickes would expect
14 me to take in responding to that question.

15 MR. KRAVITZ: I was going to say we might
16 have gotten some more interesting notes out of that.

17 THE WITNESS: I mean I should say, he might
18 have. I just don't remember. I kind of remember
19 that I knew this was an issue. And I did it myself,
20 and the first line kind of indicates that. It's
21 possible he asked me to do it, but I just -- I don't
22 remember that.

1 BY MR. DINH:

2 Q Okay. Let me direct your attention now to
3 document Bates stamp S7288, and it goes through
4 S7294, actually through S7312 is the end of it.

5 A Yes, okay.

6 Q And it's a memorandum from Harold Ickes to
7 the First Lady dated March 1st, 1994 re: Resolution
8 Trust Corporation, first line says, "attached is a
9 copy of W. Neil Eggleston, 28 February 1994,
10 memorandum to me regarding certain issues involved in
11 the RTC, and the Rose law firm." And the next page
12 attaches your February 28th, 1994 memorandum.

13 A Okay.

14 Q Do you recall preparing the February 28th,
15 1994 memorandum?

16 A I do.

17 Q Did Mr. Ickes ask you to prepare this
18 memorandum?

19 A I remember that he asked me to prepare this
20 memorandum.

21 Q Do you recall approximately when he asked
22 you to prepare the memorandum?

1 A Not too long before February 28th.

2 Q One or two days before?

3 A Yeah, probably.

4 Q Do you remember this being him expressing
5 to you this was a rush project of some sort?

6 A I don't.

7 Q Okay.

8 A But I would -- I was being asked to do a
9 project by the Chief of Staff, I would do this
10 quickly.

11 Q You generally have a very quick turnaround
12 for memoranda to Mr. Ickes?

13 A Yes. In the White House, generally things
14 move quickly, and there's not a substantial period of
15 time to meditate over these things, so I would do
16 these, these matters, request from the Deputy Chief
17 of Staff, I would do quickly as a matter of routine.

18 Q Did Mr. Ickes request to you why he wanted
19 research into this area?

20 A I don't think so. Although -- I mean these
21 issues weren't surprising, they were all hot press
22 issues at the time. But I don't remember him telling

1 me why he wanted -- it didn't surprise me that he
2 wanted it. It was all hot in the press and --

3 Q Did he tell you that he had a discussion
4 with the President and the First Lady and they wanted
5 some research into this area?

6 A I don't think so. I don't think I knew my
7 memo was going to the President, per se. But I
8 don't -- I don't know. I've been asked that question
9 before. And, you know, I kind of defer to whatever
10 my answer was then.

11 But today I don't remember knowing that it
12 was -- it was going to go to the President and the
13 First Lady. I didn't see the cover memo until I
14 testified in the summer of '94 I think.

15 Q Okay. So prior to the summer of 1994, you
16 did not know that Mr. Ickes had sent that on to --

17 A Again, I don't think so. I don't think
18 so. But again --

19 MR. MURPHY: But your recollection about
20 this in the summer '94 would have been better than
21 your recollection today?

22 THE WITNESS: Yes. Thank you.

50

1 MR. MURPHY: And we don't remember what you
2 said in the summer of '94.

3 THE WITNESS: I don't remember what I said
4 in the summer of '94.

5 BY MR. DINH:

6 Q Do you recall having any discussions with
7 Mr. Ickes regarding the memorandum or the subject
8 matters that you discussed in there with him
9 afterwards?

10 A Well, this is -- I mean you can tell this
11 says revised. I submitted one to him, and he had
12 additional questions and I revised it.

13 Q Okay. Do you recall when he had additional
14 questions, was it within the same day or --

15 A It was very quickly.

16 Q It was very quickly?

17 A Yes, but I don't know, within a day, two
18 days, the same day. I just don't -- I don't remember
19 that.

20 Q Okay. Did you understand them to be his
21 questions, or did you understand them to be somebody
22 else's questions that he was relaying?

1 A I didn't have an understanding. He just
2 asked me to prepare -- I think the actual questions
3 in here are mine. I don't think he --

4 Q No, I mean -- I mean the questions that led
5 to the revisions.

6 A Oh, no. I think he called and said I don't
7 quite understand this or I don't quite understand
8 that or could you add something on this. I just
9 think it was a -- my recollection is it was there's
10 some more -- there's some more things I need you to
11 address or something. I don't remember knowing why.

12 Q Mr. Ickes did not tell you that he had sent
13 your memorandum -- so it's clear on the record.
14 Mr. Ickes did not tell you at the time that he sent
15 the memorandum on to the First Lady or the President?

16 A Again, as I sit here today, I don't
17 remember that he told me that. But, again, I first
18 saw this cover memo in the summer of '94. I think
19 I've testified about this.

20 And if -- I don't mean to be silly, but I'm
21 certain I remembered better back in the summer of '94
22 when I first answered that question than I do today.

1 So this is an area where having seen this
2 memo sort of not too far off the time that the memo
3 was prepared, by this memo I mean the cover memo from
4 Mr. Ickes to the First Lady, I don't think he told
5 me.

6 But I kind of want to tell you if I
7 answered it in a contrary way in the summer of '94,
8 that would be a better indication of my recollection
9 than what I'm saying today.

10 MR. MURPHY: My recollection of what your
11 recollection is then is that you didn't recall then
12 either.

13 THE WITNESS: I don't think I recalled then
14 either.

15 BY MR. DINH:

16 Q Did Mr. Ickes have any subsequent
17 discussion with you regarding this memo in which he
18 said that Mrs. Clinton still had some questions
19 regarding issues raised therein?

20 A With the caveat that I've given you, I
21 don't recall that. I don't recall knowing that this
22 was going to go to the First Lady.

1 Q Do you recall finding out afterwards that
2 it had gone to the First Lady?

3 A I don't think I recall finding out until I
4 saw -- until -- this memo became a big issue at the
5 hearings in the summer of '94, because the White
6 House produced it in a completely redacted form. It
7 was 25 redacted pages. And at the time I testified
8 in the House Committee, it hadn't been redacted.

9 MR. MURPHY: Unredacted in the House
10 Committee? My recollection is that you testified I
11 think in the House first.

12 THE WITNESS: It was redacted.

13 MR. MURPHY: And it was still redacted.

14 THE WITNESS: And it became a big issue,
15 and it was shortly after I testified that they were
16 produced.

17 BY MR. DINH:

18 Q But that was the first time that you had
19 found out that the --

20 A In any event --

21 MR. MURPHY: My recollection is, and I'm
22 not under oath. But my recollection is that it was

1 during Mr. Eggleston's testimony in the Senate.

2 THE WITNESS: That they produced it?

3 MR. MURPHY: That they produced the
4 document, that Mr. Cutler made the decision to
5 produce it in unredacted form.

6 THE WITNESS: I remember being questioned
7 about it.

8 MR. MURPHY: And you may have been asked
9 about it like 2:00 o'clock in the morning by
10 Senator Dodd.

11 THE WITNESS: No, Senator Hatch asked me
12 questions, Senator Hatch.

13 MR. KRAVITZ: It was definitely released in
14 its unredacted form sometime during that week of
15 hearings in August of '94. I don't remember.

16 THE WITNESS: I don't remember
17 Senator Hatch asking me questions about the memo.

18 BY MR. DINH:

19 Q But that was the first time you had found
20 out that it had gone to the First Lady?

21 A That's the first time I remember finding
22 out, with the caveat I said earlier, which is that in

1 the summer of '94, I remembered better than I do
2 today.

3 Well, this memo is essentially what the
4 Altman hearing -- everybody thinks about it is the
5 hearing, whether or not he disclosed the meeting with
6 Mr. Ickes and myself, but, actually, what the hearing
7 was about was essentially what this memo was about.

8 People have forgotten that the real
9 substance of the hearing from the Republican side was
10 all about the conflicts, and Senator D'Amato released
11 the RTC report in the middle of the hearing.

12 MR. KRAVITZ: This is the February 24th,
13 1994 hearing?

14 THE WITNESS: Right. Actually what the
15 hearing was about was essentially what this memo was
16 about, which is the two FDIC reports which had come
17 out really the week of the hearing.

18 And then the one with the RTC report that
19 was released during the hearing, and that's
20 essentially what the Republicans were doing with the
21 hearing.

22 So that's -- so that's -- this memo is

1 essentially what that hearing had been about. And
2 the questions are kind of where does it go now in
3 light of some of the things that have been released
4 in those two reports, and some of the concessions
5 that the Republicans had gotten out of the IG, and
6 Mr. Holt and all that at the hearing. That's -- this
7 is just a couple days after the hearing.

8 BY MR. DINH:

9 Q But your memo went further than to simply
10 say the RTC reports and the FDIC report, did it not?
11 Let me refer you to page 5 of the memorandum, it's
12 the Bates stamp is cut off in the photocopy here, but
13 it's --

14 A If you could give me the page number.

15 Q Page 5. And for the record, it's S7291.
16 And I will direct your attention to the first
17 paragraph there.

18 A Yes. Yes. But it's all the same issue of
19 what's going on here. What is the RTC investigating,
20 this is a summary memo of where are we. My
21 recollection, again, I haven't read this whole thing,
22 but this is basically a summary memo of where are we

1 today.

2 I mean Mr. Altman had recused himself.

3 These reports had been released; what are they
4 looking at; what's going on; what can they find; what
5 is happening; where do we stand here today in light
6 of the hearing and what had happened at the hearing,
7 where are we.

8 Q Okay. Let me --

9 A That's my recollection.

10 Q Let me direct your attention to the fourth
11 sentence in that paragraph where you wrote, "the RTC
12 could also sue outsiders, including the President and
13 Mrs. Clinton, if the RTC found that the outsiders
14 were the insiders illegally to divert assets of the
15 savings and loan."

16 I take it that was simply just an issue
17 spotter of a -- it could also sue outsiders?

18 A Yes.

19 Q You didn't have any evidence, factual or
20 otherwise, that there was any such allegations?

21 A Well, allegations, Senator D'Amato had been
22 making allegations by this time for two months.

58

1 Other than what the Republicans were saying, I didn't
2 have any facts to support it.

3 But it was just this is what -- this is
4 what they were all saying, which is, you should sue
5 the President or the First Lady. And so the question
6 is, you know, what would they have to show, what
7 would the RTC have to show to sue the President and
8 the First Lady.

9 Q When Mr. Ickes assigned you the memorandum
10 a couple days before you prepared this, did he talk
11 with you specifically to address the potential
12 exposure of the President and First Lady arising out
13 of the failure of Madison?

14 A I don't remember. I should say I think the
15 questions in here were ones that I made up as
16 headings to make a long memo read easily. I don't
17 specifically remember that he dictated a number of
18 questions to me and said get the answers.

19 Q I just have one last line of questions.

20 A Okay.

21 Q Let me direct your attention to S10380.
22 It's a letter dated February 4th, 1994 to Bernard

1 Nussbaum and Joel Klein. And it's a 10-page letter
2 ending with S10389 from Samuel A. Cessel, Junior.
3 Actually look through that very briefly.
4 MR. KRAVITZ: You don't have an extra copy
5 of that one, do you?
6 (Witness reviews the document.)
7 THE WITNESS: Should I read the whole
8 letter?
9 BY MR. DINH:
10 Q Browse through it. I think you read the
11 first page. You can pretty much get the gist of the
12 letter.
13 A Okay. Right.
14 Q Do you know who Mr. Sam Cessel is?
15 A I think I met with him.
16 Q Did you meet with him? The first page of
17 the letter references a meeting with Mr. Nussbaum.
18 A I think I was in the meeting.
19 Q You were in the meeting?
20 A Yes.
21 Q How did the meeting come about?
22 A I think -- I have a very vague recollection

1 of this, but I think that -- I think exactly the way
2 he said, my recollection. It says, as we discussed,
3 I called Senator Mitchell, and in turn his call to
4 you, meaning Mr. Nussbaum, I think. I think that
5 Senator Mitchell called Mr. Nussbaum and said you
6 ought to meet with Mr. Cessel, and we can have a
7 meeting with him.
8 Q And who is Mr. Cessel?
9 A I had no idea who Mr. Cessel was at the
10 time. But Senator Mitchell asked us to meet with him
11 and we did.
12 Q And you did. And did you discuss
13 Whitewater and Madison with Mr. Cessel?
14 A Generally yes.
15 Q And subsequent to that meeting is when he
16 wrote you this letter?
17 A Well, to Mr. Nussbaum and Mr. Klein. He
18 didn't write it to me.
19 Q Did Mr. Nussbaum and Mr. Klein request
20 Mr. Cessel to write this letter?
21 A No. Mr. Cessel was a volunteer, as I think
22 his letter makes clear. He just volunteering his

1 thoughts to us about how to deal with this. I never
2 met or heard of Mr. Cessel before.

3 Q Was there any follow-up to the suggestions
4 or the volunteered advice that he gave in this
5 10-page letter?

6 A Not that I remember and not that I know
7 of.

8 MR. DINH: I have no further questions.

9 MR. KRAVITZ: I have no questions.

10 THE WITNESS: Thank you.

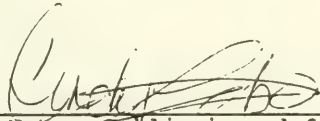
11 MR. MURPHY: I have no questions.

12 (Whereupon, at 11:38 a.m., the deposition
13 was concluded.)

14 -----
15
16 W. NEIL EGGLESTON
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

I, CINDY L. SEBO, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.



Notary Public in and for the
District of Columbia

My Commission Expires FEBRUARY 14, 2000

**DEPOSITION OF CHARLES E. JAMES
IN RE: S. RES. 120**

SUNDAY, MAY 5, 1996

**U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.**

Deposition of CHARLES E. JAMES, called for examination pursuant to notice of deposition, at 12:15 p.m. in Room 640-A of the Hart Senate Office Building, before JANE W. BEACH, a Notary Public within and for the District of Columbia, when were present:

**VIET D. DINH, Esq.
Majority Associate Special Counsel
JOSEPH A. JIAMPINETRO, Esq.
Majority Counsel
LANCE COLE, Esq.
Minority Deputy Special Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.**

**ALSO PRESENT: JOSEPH POTTER
STEVEN BANKLER**

CONTENTS

WITNESS	EXAMINATION
Charles E. James	
by Mr. Dinh	3
by Mr. Cole	122
by Mr. Dinh	191
by Mr. Cole	194
by Mr. Jiampietro	201

P R O C E E D I N G S

(12:15 p.m.)

Whereupon,

CHARLES E. JAMES

was called for deposition in the above-entitled matter and, having been first duly sworn by the Notary Public, was examined and testified as follows:

MR. DINH: On the record.

EXAMINATION

BY MR. DINH:

Q Good morning, Mr. James. My name is Viet Dinh, as you know, and I am with the majority staff of the Senate Special Committee to investigate Whitewater Development Corporation and related matters.

With me is Mr. Joe Jampietro, also with the majority side, and Steve Bankler, both of whom you have met and introduced off the record before, also with the majority side.

As we explained to you briefly off the record, this deposition is conducted pursuant to

4

Senate Resolution 120, a copy of which you have in front of you. The resolution establishes the Special Committee, administered by the Senate Banking Committee, to conduct an investigation into Whitewater Development Corporation, Madison Guaranty Savings and Loan Association, and other related matters specified in the resolution.

Section 1(B)(3)(a) of Resolution 120 authorizes an investigation and public hearings into, and I quote, "the operations, solvency, and regulation of Madison Guaranty Savings and Loan Association and any subsidiary, affiliate, or other entity owned or controlled by Madison Guaranty Savings and Loan Association."

Section 1(B)(3)(b) of Resolution 120 authorizes an investigation and public hearings into, and again I quote, "the activities, investment, and tax liability of Whitewater Development Corporation and, as it relates to Whitewater Development Corporation, of its officers, directors, and shareholders."

I anticipate that these subjects will be

1 the primary focus of today's deposition.

2 Your testimony is being taken under oath
3 and the stenographer will prepare a record of
4 questions and answers. This deposition is taken in
5 advance of public hearings and, as you have been
6 advised by the staff of the committee, you are
7 currently scheduled to be called as a witness at
8 public hearings on Wednesday, May 8, 1996. That is
9 this upcoming Wednesday. So, unless you are advised
10 otherwise, please be prepared to testify on that
11 date.

12 The transcript of this deposition will be
13 treated as committee-confidential until the
14 commencement of those hearings. At that time it may
15 be made public in whole or in part.

16 Prior to the hearings, you will be
17 provided with a copy of your deposition transcript
18 for the limited purpose of preparing yourself for
19 testimony at the public hearings. I anticipate that
20 the transcript of this hearing will be ready tomorrow
21 morning, and then we will go ahead and Federal
22 Express that to you at your address.

1 You may be represented by counsel, and as
2 I see, you do not have counsel here. But pursuant to
3 the procedures set forth in Resolution 120, some of
4 which Mr. Cole and I have gone over with you off the
5 record, objections as to the form of the questions
6 will be noted for the record.

7 There are two grounds upon which you may
8 object and not answer; that is, on privilege, and on
9 scope grounds. And the scope grounds are the grounds
10 that Mr. Cole had explained to you earlier; that is,
11 that a question has exceeded the scope of the matters
12 authorized in the Resolution 120.

13 As Mr. Cole explained to you off the
14 record, again the ultimately if you refuse to answer
15 a question, the committee chairman will rule on
16 whether or not the questions or answer will be
17 privileged or whether the question is within the
18 scope of Resolution 120.

19 MR. COLE: Before we begin, I would just
20 like to say for the record, since I don't think that
21 it is on the record so far, I am Lance Cole. I am
22 Democratic deputy special counsel.

1 I am accompanied here today by Joseph
2 Potter, who is a member of the minority staff of the
3 Special Committee.

4 MR. DINH: I am sorry. I apologize for
5 that, Lance.

6 BY MR. DINH: (Resuming)

7 Q Mr. James, could you state your name for
8 the record, please?

9 A Charles E. James.

10

11

12

13

14

15

16 Q Can you give me a brief background of your
17 education? You graduated from the University of
18 Arkansas at Little Rock. Is that right?

19 A That's correct.

20 Q And with what degrees?

21 A A degree in accounting.

22 Q A degree in accounting.

1 Did you do any graduate work in
2 accounting?

3 A No.

4 Q Are you a certified public accountant?

5 A No, I am not.

6 Q Can you give me a brief history of your
7 professional life from, say, 1976 till the present?

8 A Well, in '76, January 1 of '76, I went in
9 practice for myself. The CPA I worked for sold his
10 practice. I didn't have a job. I went in business
11 for myself from '76 until '80.

12 In '80 I started trying to phase out my
13 accounting practice because I got an automobile
14 business.

15 Q In what capacity are you in the automobile
16 business?

17 A I am self-employed.

18 Q Did you continue to work on your
19 accounting business after 1980?

20 A Yes.

21 Q On a part-time basis?

22 A Um-hmm.

1 Q Are you still presently in the automobile
2 business?

3 A Yes, I am.

4 Q Are you a salesman?

5 A I am in the wholesale automobile business.

6 Q Wholesale automobile.

7 Do you still practice as a part-time
8 accountant?

9 A I try not to, but I have just -- I think I
10 did six tax returns this year just for family and
11 friends.

12 Q Until approximately what date did you
13 continue to work as a part-time accountant beyond
14 just, you know, the occasional tax returns for your
15 family and friends?

16 A Basically, I guess, it was probably '87.

17 Q '87. So, from '87 to the present, your
18 primary occupation has been in the wholesale
19 automobile business?

20 A From 1980 on it was.

21 Q But you continued to do some accounting on
22 the side until 1987?

10

1 A Um-hmm.

2 Q And in your capacity as a private
3 accountant, did there come an opportunity for you to
4 meet Jim McDougal?

5 A Yes.

6 Q How did Mr. McDougal come to contact you
7 or you to contact Mr. McDougal?

8 A He had a CPA that was doing his work, and
9 he didn't have time to do all of it necessary, and he
10 referred Mr. McDougal to me.

11 Q And approximately what date was this?
12 What year?

13 A It was in '76, at some point. I'd say the
14 first half of '76.

15 Q And you, I take it, took on Mr. McDougal
16 as a client?

17 A Well, I started out just helping the CPA,
18 and I took the time to go through and get things
19 straightened up for him and everything, and he asked
20 me if I would continue doing his work.

21 Q Okay. And to what approximate date did
22 you continue performing services for Mr. McDougal?

1 A The last I did was for some '86 tax
2 returns for him.

3 Q '86 tax returns. So those would be
4 prepared sometime in 1987?

5 A Um-hmm.

6 Q And as part of your services for
7 Mr. McDougal, did there come a time for you when you
8 had the opportunity to work with an entity called the
9 Whitewater Development Corporation?

10 A Yes, I did.

11 Q I know you have probably talked to a
12 number of investigators and attorneys regarding your
13 work for Mr. McDougal and the Whitewater Development
14 Corporation.

15 Without telling me what you told them or
16 what questions were asked of you, can you list for me
17 the people and the agencies you have talked to
18 regarding Mr. McDougal and your work for Whitewater
19 Development Corporation?

20 A Just the FBI is all.

21 Q How many times have you talked to the FBI?

22 A Numerous times. I can't tell you. We're

1 on a first-name basis.

2 (Laughter.)

3 Q I take it these FBI agents were working
4 with both the Independent Prosecutor Kenneth Starr
5 and Special Prosecutor Robert Fiske?

6 A Yes. Now, I think when Fiske was there, I
7 talked to a different one than this last one I have
8 been in contact with the most.

9 Q When you were contacted by an FBI agent?

10 A That's correct.

11 Q While he was working for Special
12 Prosecutor Fiske?

13 A Um-hmm.

14 Q Have you also talked to investigators from
15 the FDIC?

16 A Yes. I forgot all about them. They flew
17 in from California.

18 Q Since you have had the notice of this
19 deposition from the staff, have you had any
20 conversations, meetings, or contacts regarding the
21 substance of your testimony here?

22 A No. Well, let me rephrase that. You

1 know, I had to testify down there last week.

2 Q Oh. Okay. Testify at the trial?

3 A Yes. But I actually didn't receive the
4 subpoena until after that.

5 Q Right.

6 MR. COLE: Mr. James, when were you first
7 contacted by the staff of the Special Committee and
8 asked to appear here at your deposition? Do you
9 recall?

10 THE WITNESS: Well, it's hard to say
11 because I was supposed to appear in court down there.
12 They didn't -- they were running late, didn't get to
13 it. They put it off once. I think it was a week ago
14 Monday I was supposed to be here. And the FBI down
15 there called Mark Brenner and got it put off.

16 MR. COLE: And when were you first told
17 that you would be required to appear at a public
18 hearing this coming Wednesday? Do you recall?

19 THE WITNESS: Yeah. It was -- I was out of
20 town working. Let's see. I left, it was Thursday.

21 MR. COLE: Thursday of last week?

22 THE WITNESS: Um-hmm.

1 MR. COLE: Thank you.

2 BY MR. DINH: (Resuming)

3 Q Thursday of last week being Thursday, two
4 days ago. Is that correct?

5 A Um-hmm.

6 Q So, today being May 5, Thursday would be
7 May 2?

8 A Um-hmm.

9 MR. DINH: Off the record.

10 (Discussion off the record.)

11 MR. DINH: On the record again.

12 BY MR. DINH: (Resuming)

13 Q As I introduced to you before,
14 Mr. Jiampietro is also here with us from the majority
15 staff. I anticipate that I will be asking you some
16 questions, more general questions, regarding your
17 contacts, meetings, with Mr. McDougal and with then-
18 Governor Clinton, Bill Clinton, and Hillary Rodham
19 Clinton, and I will ask you some other questions
20 regarding your subsequent contacts with people
21 related to the Whitewater affair or investigation as
22 such.

1 Mr. Jiampietro, who is smarter and more
2 technically adept than I am and has much more
3 expertise in the particular transactions and tax-
4 related documents, will ask you more specific
5 questions regarding the activities surrounding the
6 purchase of land from Whitewater Development
7 Corporation for Whitewater Development Corporation,
8 the incorporation of the company, and other
9 tax-related work that you performed for them, that
10 you may have performed for the corporation.

11 That will be the general focus of my
12 questions, and Mr. Jiampietro's questions, and then
13 Mr. Cole, who represents the minority staff, as he
14 explained earlier, may have some follow-up
15 questions.

16 MR. COLE: Actually, the way it will work,
17 Mr. James, is when Mr. Dinh completes his
18 questioning, I will have an opportunity to question
19 you before Mr. Jiampietro begins. But I am sure that
20 is what Mr. Dinh meant.

21 BY MR. DINH: (Resuming)

22 Q Just for the record, section 5(b)(7) of

1 Senate Resolution 120, to which we referred you
2 earlier, specifies the procedure to be followed in
3 deposition, and that states, "Questions shall be
4 propounded first by the majority staff of the Special
5 Committee and then by minority staff of the Special
6 Committee. Any subsequent round of questioning shall
7 proceed in the same order."

8 I think that means that the majority gets
9 to go first and then the minority goes. But since we
10 are proceeding, my questions will be on discrete
11 subject matter than Mr. Jiampietro's, I have no
12 objection to Mr. Cole following me with questioning
13 following my round of questioning then Mr. Jiampietro
14 will continue with his subject matter so that it will
15 help your recollection with respect to these
16 particular issues.

17 You stated earlier that you were first
18 contacted by Mr. McDougal after referral by his
19 accountant sometime in 1976?

20 A That's correct.

21 Q And when did Mr. McDougal ask you to do
22 work with respect to Whitewater Development

1 Corporation?

2 A When it was formed. And I don't --

3 Q Approximately what year?

4 A I don't remember the exact date. As I
5 recall, it was somewhere around '77 or '78.

6 Q Mr. Jiampietro will refer you to some
7 documents that may refresh your memory with respect
8 to those particular transactions.

9 A Just for the record, I stated for
10 everybody before this started, a lot of people have a
11 lot better memory than I do after ten years or
12 better.

13 (Laughter.)

14 Q All right.

15 A With some of the statements that I have
16 seen made.

17 (Laughter.)

18 Q We will try to refresh your recollection
19 with some of the contemporaneous documents that were
20 prepared at the same time and it may give you a
21 better idea as to the times of the activities that
22 were happening at the time.

1 But right now I would like to get just
2 your best recollection as to the events that
3 happened.

4 MR. COLE: I am confused about one point
5 before we go on because, if I understood Mr. James
6 correctly, he said that he began to perform
7 accounting services for Whitewater Development
8 Corporation when it was formed. And the records and
9 documents that are before the committee establish
10 quite clearly that the corporation was not formed
11 until about a year after the purchase of the
12 property.

13 So I want to be, if we can, if Mr. James
14 recalls, is he testifying that he began performing
15 accounting services only when the corporation was
16 formed or when the property was initially purchased?

17 Do you recall, Mr. James? It's not a
18 memory test, but I want to make sure that we don't
19 read something into your answer that wasn't intended.

20 THE WITNESS: Well, the way I took the
21 question is when I started doing the work for
22 Whitewater was when the corporation was formed.

1 If I was doing Mr. McDougal's work, I am
2 sure that I must have known when he bought the land.

3 MR. COLE: For the record, we have
4 indication that the land was purchased in the summer
5 of 1978 and the corporation was formed in June of
6 1979. So there is about year gap there, and that is
7 what I am trying to determine as to whether you
8 recall whether you did work in that time period
9 before the formation of the corporation.

10 THE WITNESS: Well, there actually was, as
11 I remember, a Whitewater.

12 MR. COLE: There was not a corporation?

13 THE WITNESS: That's right.

14 MR. COLE: There was a development named
15 Whitewater.

16 THE WITNESS: I guess so. I don't
17 remember it, but I am sure, you know, Mr. McDougal
18 bought it, so -- and I was doing his work, so I knew
19 about it.

20 MR. COLE: Did you prepare his 1978 tax
21 returns?

22 THE WITNESS: Yes.

1 MR. COLE: Okay.

2 BY MR. DINH: (Resuming)

3 Q Again, now, Mr. Jiampietro will be
4 covering those subject areas, and because of some
5 discussions between the staff, I will not venture in
6 those subject areas, just to keep the issues clean,
7 as Mr. Cole has requested of the majority through
8 various discussions this past week.

9 So, Mr. Jiampietro will ask you some
10 questions regarding both pre-incorporation activities
11 that you did for Mr. McDougal and how they relate as
12 the development was purchased and then subsequently
13 incorporated into a corporate entity.

14 When you first heard of Whitewater
15 Development Corporation either as corporation or as
16 simply a plan in Mr. McDougal's mind, did he mention
17 to you about the Clinton's involvement or any
18 involvement the Clintons may have in that
19 development?

20 A Not that I recall.

21 Q When did you first come to have knowledge
22 of the Clintons' involvement in Whitewater?

- 1 A When they got ready to form the
2 corporation.
3 Q And how did you come upon that knowledge?
4 A Because I helped form the corporation.
5 Q Did Mr. McDougal tell you that the
6 Clintons will be involved in this project?
7 A Yes.
8 Q Did you have any conversations with the
9 Clintons regarding their ownership of the project?
10 A No, I did not.
11 Q So your work with respect to the
12 incorporation was based solely on Mr. McDougal's
13 representations to you?
14 A Yes.
15 Q Did you have conversations with Susan
16 McDougal about the project?
17 A Yes.
18 Q During the process of the incorporation?
19 A Um-hmm.
20 Q You did. But you had no conversations
21 with Hillary Rodham Clinton at that time?
22 A No.
-

- 1 Q You had no conversations with Mr. Clinton?
2 A No, I did not.
3 Q You did not attempt to verify whether they
4 had agreed to become part owners of this venture?
5 A I had no reason to.
6 Q As part of the incorporation process, you
7 had to execute certain documents. Correct?
8 A Yes.
9 Q Did those require the signature of the
10 putative owners of the corporation?
11 A Yes.
12 Q Did those require the signatures of
13 Mr. and Mrs. Clinton?
14 A Yes, I am sure they did.
15 Q Did you send or did you have any
16 communications or contacts or meetings with Bill
17 Clinton or Hillary Rodham Clinton --
18 A No.
19 Q -- in order to get their signature on these
20 forms?
21 A No.
22 Q How did you get them signed?

1 A The attorney that formed the corporation,
2 I suppose. I didn't do any of that.

3 Q And the attorney's name is?

4 A I don't remember because Mr. McDougal used
5 quite a few different attorneys for different
6 entities.

7 Q Was it a Mr. Brown? Does that refresh
8 your memory?

9 A It could have been. He used him.

10 Q Okay. Just so I get clear as to your
11 particular role in this process, the attorney who was
12 working for Mr. McDougal on the incorporation
13 prepared the documents and got the necessary
14 signatures?

15 A That's correct.

16 Q What were your services in relation to the
17 formation of the venture or of the corporation?

18 A I just handled the accounting work. You
19 know, I was the original -- originally, I owned, I
20 think, five or ten percent. I am not even sure now.
21 I had forgot until all this started that I did own a
22 percentage of Whitewater when it was formed.

1 Q What was your understanding of the purpose
2 of your ownership of the part of the company?

3 A Mr. McDougal just offered it to me, and I
4 thought at the time it would be a good investment.

5 Q So it was -- oh, did you pay Mr. McDougal
6 money for it?

7 A I paid for my share of the stock, yes,
8 sir.

9 Q Do you recall approximately how much you
10 paid for that, for those shares?

11 A No, sir, I don't.

12 It seemed like it was set up for a penny a
13 share or a dollar a share. I don't remember.

14 Q Okay. But that was the par value of the --

15 A Yes.

16 Q -- stock. Did you pay more than par value?

17 A No.

18 Q But you paid the par value for what was
19 required?

20 A Um-hmm.

21 Q Did you understand that Mr. McDougal was
22 offering it to you, in part, as compensation for your

1 services to Mr. McDougal?

2 A Well, no, because I was still going to get
3 paid for doing the accounting work.

4 Q So your shares were in addition to the
5 fees you would have normally charged for the
6 accounting work?

7 A Um-hmm. I did not stay in it but a short
8 period of time.

9 Q Did you know the circumstances through
10 which you divested, you were divested of the
11 ownership of Whitewater?

12 A Mr. McDougal bought me out.

13 Q Okay. You don't recall the specific
14 circumstances. Do you know when?

15 A No, sir, I don't remember. But
16 Mr. McDougal was moving to North Arkansas and --

17 Q Do you know --

18 A -- I went to work at another job.

19 Q Okay. I'm sorry.

20 Do you know exactly whom you sold the
21 stock to? Was it to Mr. McDougal himself?

22 A I don't remember.

1 Q Okay.

2 A Like I said, I didn't even remember that I
3 owned it till all this came about.

4 Q All right.

5 Again, Mr. Jiampietro will get more into
6 all this and refer you to the documents. I just
7 wanted to get a basic understanding of your
8 relationship with the McDougals as it relates to the
9 Whitewater project.

10 During the time that you were involved in
11 work for the Whitewater Development entity, for
12 Whitewater either as a project or as a corporation,
13 did there come a time when you had any communications
14 with Bill or Hillary Clinton with respect to
15 Whitewater?

16 A No, sir.

17 Q You had no contacts with Bill or Hillary
18 Clinton?

19 A I met Hillary Clinton twice, is all I met
20 her. Once and I can't remember the date; I remember
21 where I met her, where I was at the time. And then
22 once when she was trying to get the records for

1 Whitewater from the McDougals and everything.

2 Q Okay.

3 MR. COLE: I am sorry. Did the first
4 meeting relate to Whitewater Development Corporation,
5 or was that an unrelated meeting?

6 THE WITNESS: It was unrelated, really.
7 They just introduced me to her.

8 BY MR. DINH: (Resuming)

9 Q "They" being?

10 A The McDougals.

11 Q The McDougals. Okay.

12 Now, Mr. Cole referred to that meeting as
13 "the first meeting." Was that temporally before?

14 A Yes.

15 Q Did that occur in time before your meeting
16 with Mrs. Clinton to transfer the records?

17 A I don't know that it had anything to do
18 with Whitewater at all. They just introduced me to
19 her. I am just stating for the record I only saw her
20 twice.

21 Q Okay. But I am just trying to get a time
22 frame.

1 You said on one meeting you met with
2 Mrs. Clinton in order to give her the records.

3 A Yes.

4 Q Of Whitewater. The other meeting, the one
5 when the McDougals introduced you to Mrs. Clinton --

6 A It wasn't a meeting.

7 Q Right.

8 A She just stopped by to see him, and they
9 introduced me to her.

10 Q And did that occur before Mrs. Clinton,
11 you transferred the records of Whitewater to
12 Mrs. Clinton?

13 A Oh, yes. Yes.

14 Q Was it one year before? Two years before?

15 A Oh, it was, I'm going to say, it was in
16 the '70s sometime when the first time I met her.

17 Q Okay. It was in the '70s sometime.

18 A Yeah. Um-hmm.

19 Q Do you recall if Bill Clinton was Governor
20 at the time?

21 A I don't. I believe -- I do not believe he
22 was.

1 Q Okay.

2 A Because I don't think he became Governor
3 till '80, did he?

4 Q Right.

5 A And it was before then.

6 MR. COLE: Well, let's just get it correct
7 for the record. Governor Clinton was elected for the
8 first time in 1978, began to serve as Governor in
9 1979, was defeated by Frank White in 1980, reelected
10 in 1982, and then served from '83 until he became
11 President.

12 THE WITNESS: I do not believe he was
13 Governor at the time.

14 BY MR. DINH: (Resuming)

15 Q Okay. Do you think he was attorney
16 general at the time? Did he have any public position
17 that you knew of?

18 A At this time I don't recall.

19 Q Was this meeting before or after you
20 became aware of such a thing as Whitewater either as
21 the development or as a corporation?

22 A Sir, I don't recall.

30

1 Q You don't recall.

2 A I really don't. I just remember meeting
3 her that one time is all.

4 Q Okay. You stated that you remember where.
5 Where was this meeting?

6 A The McDougals owned, or they owned part of
7 a building on campus, and it was called the Packett
8 House. And I was over there and met her.

9 Q The Packett House?

10 A Um-hmm.

11 Q P-A-C-K-E-T?

12 A -- E-T-T, I believe is the way it was.
13 Um-hmm.

14 Q Did they have an office there?

15 A Yes.

16 Q And you had testified earlier that Mrs.
17 Clinton had dropped by for some unrelated business?

18 A I have no knowledge of why she was there.

19 Q Okay. Did you have an office in Packett
20 House also?

21 A I had a place there, yes, sir, where I,
22 you know, I did so much work for them. I had my own

1 office in North Little Rock.

2 Q Right.

3 A But I had a place set up there where I
4 could work because I did so much for them.

5 Q Right. You had a desk or working space of
6 some sort?

7 A Um-hmm.

8 Q And you were there working at the time
9 when Mrs. Clinton dropped by?

10 A Yes.

11 Q Okay. And were both McDougals there?

12 A As I recall, they were, yes.

13 Q Okay. And Mrs. Clinton dropped by, and
14 Mr. McDougal introduced you to Mrs. Clinton?

15 A I don't remember whether it was
16 Mr. or Mrs. McDougal that introduced me. One of them
17 did.

18 Q One of them. But both of them were there
19 at the time?

20 A Here again I don't recall if both of them
21 were there. I just recall that that's where I met
22 her.

1 Q Right. Okay. That's fine.

2 Other than the usual expected
3 pleasantries, "how do you do," "how are you's," did
4 you have any other conversation with Mrs. Clinton at
5 that time?

6 A I shook her hand, and that was it.

7 Q Okay. You had no discussions about
8 whatever accounting you were doing for Mr. McDougal?

9 A None.

10 Q Did you have any mention of any projects
11 that Mr. McDougal may have been involved in?

12 A (Inaudible.)

13 Q I'm sorry. You have to state your answer
14 for the record.

15 A No.

16 Q Okay. It is hard for the reporter to pick
17 up a shaking or nodding of the head. I am sorry I
18 did not instruct you so earlier.

19 While you were in the company of
20 Mrs. Clinton during this first meeting, did you
21 overhear either Mr. McDougal or Mrs. McDougal discuss
22 anything with Mrs. Clinton?

1 A No, I did not.

2 MR. COLE: Let's try it again. Save you
3 the scope objection.

4 BY MR. DINH: (Resuming)

5 Q I simply am trying to get all the facts
6 and trying to see what your recollection is, and I
7 appreciate your attempt at kind of re-create these
8 events for us because it turns out that it may be
9 very significant within the scope of our
10 investigation.

11 You stated that you continued working for
12 Mr. McDougal until sometime in 1987.

13 A Yes, sir.

14 Q Okay.

15 A I can further this if you would like. And
16 this is from the trial I just got through testifying
17 in.

18 The last work that I was showed that I did
19 with it was their personal tax return for '86 and a
20 Flowerwood Farm that the end was March 31 of '87, and
21 then that's as far as I recall. That's the last work
22 I did for them.

34

1 And I don't remember the dates on those
2 tax returns, but I am sure you all have them.

3 (Laughter.)

4 THE WITNESS: Everybody else did.

5 (Laughter.)

6 MR. COLE: I suspect you will see them
7 before the day is done.

8 THE WITNESS: Yeah.

9 (Laughter.)

10 THE WITNESS: And that's the last contact
11 I have had with Mr. McDougal.

12 BY MR. DINH: (Resuming)

13 Q Okay. We will get to that a little bit
14 later also.

15 Let me ask you about the second meeting
16 that you had testified to with Mrs. Clinton. You
17 stated that the purpose of the meeting was for you to
18 hand over records of Whitewater Development
19 Corporation to Mrs. Clinton?

20 A That's correct.

21 Q How did this meeting come about? Did she
22 call you?

1 A As I recall, the Governor called me at
2 home one night, which I have never really met him but
3 once, and it was quite a shock.

4 They were trying to obtain the records of
5 Whitewater because they knew things were delinquent.

6 And as to what year, I do not remember
7 this.

8 Q That was my next question. You were very
9 prescient in anticipating my line of questioning.

10 But let me just step back one minute and
11 go through this step by step.

12 Was it one call from the Governor?

13 A Yes.

14 Q You are sure there was only one call from
15 the Governor?

16 A That's all I recall because --

17 Q Okay.

18 A -- I was on the phone at the time, and I
19 don't know why that sticks in my mind, but I was.

20 Q Right. And you had --

21 A I put somebody else on hold for a while.

22 Q I can imagine getting a call from the

1 sitting Governor is quite a memorable event, as it
2 were.

3 A Yeah. People don't impress me a lot.

4 (Laughter.)

5 Q Okay. And it was in the evening, you
6 said?

7 A Yes.

8 Q Or at night?

9 A At night.

10 Q Do you recall approximately what time?

11 A I want to say it was probably 7:00 to
12 8:00.

13 I can give you the circumstances. I was
14 talking to my aunt, and I put her on hold, and I had
15 to call her back, and I told her who called, and she
16 didn't believe me. So, you know, I guess that's why
17 I remember.

18 Q Okay.

19 A But as to what year, I do not remember.

20 Q Okay. Was it before or after you had
21 completed your work for Mr. McDougal?

22 A Here again I can't be specific, but I

1 would assume that it was afterwards. And I am not
2 sure of that.

3 Q Okay.

4 We got through the conversation, and you
5 put your aunt on hold. You picked up your other
6 line, and Governor Clinton says, "Hi, Mr. James, this
7 is Bill Clinton"?

8 A Um-hmm. That's correct.

9 Q And did you talk about other subject
10 matters before he broached you regarding the
11 Whitewater records?

12 A No.

13 Q He said, "We met once before"?

14 A No, he didn't say anything like that.

15 Q Okay.

16 A He might have asked me how I was doing.

17 Then the way the conversation went is that
18 he was interested in getting the records so that he
19 could get the Whitewater tax returns filed.

20 He thought I might have been dragging my
21 feet on the records. But I did not have them.

22 Q But he said to you that, "The tax returns

1 have not been filed," or something to the effect that
2 they were delinquent"?

3 A That's correct.

4 Q And he needs records in order to file the
5 tax return?

6 A Um-hmm. Correct.

7 Q And you stated that he said that he was
8 under the impression that you had the records?

9 A Well, he was just checking with me to see.

10 Q Okay.

11 A And I can go ahead and clarify some other
12 things if you all want it.

13 MR. COLE: Why don't you tell us what you
14 remember about the discussion in as much detail as
15 you can, because I think we are all interested in it,
16 and I think rather than Mr. Dinh speculating about
17 what might have been said, why don't you first tell
18 us what you remember?

19 THE WITNESS: What I recall is that he
20 asked about them, and Mr. McDougal, as I recall, was
21 sick at the time, you know, had had this stroke, and
22 I had not had any contact with any of them.

1 Here again, I don't remember the dates
2 that this took place. So that's throwing me off. I
3 just can't remember.

4 BY MR. DINH: (Resuming)

5 Q Right. But, as Mr. Cole said, just go
6 ahead and explain your best recollection and I will
7 try to ask you more specific questions.

8 A I just told him that I would try to get in
9 touch with Mr. McDougal but I hadn't seen him. And I
10 don't remember if I even get in touch with
11 Mr. McDougal.

12 Q And he asked for the records; President
13 Clinton or then-Governor Clinton did?

14 A Yes. He was interested in getting the
15 records to get things filed and up to date.

16 Q But you stated earlier that you did not
17 have the records that he was looking for?

18 A The documents to prepare the return, I did
19 not have.

20 Q Right. And those documents would be?

21 A Well, like check stubs, bank statements,
22 anything.

1 Q For the relevant year?

2 A Yes.

3 Q For the year that was delinquent?

4 A Yes.

5 Q Did you have any other records with
6 respect to Whitewater Development Corporation?

7 A Only my files.

8 Q Your files meaning the files of the work
9 that you performed for those years that you performed
10 the tax returns?

11 A That's correct.

12 Q Did you have any idea as to who may have
13 had the records that Governor Clinton was looking
14 for?

15 A All I can do is assume that the McDougals
16 did.

17 Q Did you tell that to Governor Clinton?

18 A Yes. As I recall, I did. You know, I
19 just told him I didn't have them, I assumed that -- and
20 this is the best recollection after 12, I don't know
21 how many years, ten years, I guess -- that I did not
22 have them, that I assumed the McDougals did, and I'd

1 try to help them if I could.

2 Q Did there come a point in time when
3 Governor Clinton asked you for whether records you
4 had during the conversation?

5 A I don't recall at that time. I don't
6 recall how I left my files with Mrs. Clinton.

7 Q But you ultimately did give your files to
8 Mrs. Clinton?

9 A But I got them back.

10 Q You got them back?

11 A Yeah.

12 Q Let me take it one step at a time.

13 Did Governor Clinton ask you to give your
14 files to Mrs. Clinton during that conversation?

15 A I don't recall. I don't remember, like I
16 said, the circumstances surrounding that.

17 Q Okay. But the phone call from Governor
18 Clinton was close in time to the time that you
19 transferred the files to Mrs. Clinton?

20 A Well, I mean, close in time can mean
21 different things. I am sure it was within months,
22 you know, several months. Yes.

1 Q Did you get a phone call from Mrs. Clinton
2 concerning the files?

3 A Since you started the question, I have
4 been trying to remember. I don't remember.

5 I took my file up to her office, and I
6 recall that she wasn't there, something had happened,
7 and I didn't wait around.

8 I just left her -- I got a receipt, as I
9 recall, and I had something to do and left them.

10 And then I went back later and picked them
11 up.

12 MR. COLE: Her office at the Rose Law
13 Firm?

14 THE WITNESS: Yes. At the Rose Law Firm.

15 BY MR. DINH: (Resuming)

16 Q You left them there, you went off and did
17 something later and then picked them up. You left
18 the originals with the law firm?

19 A Yes. And it was for, as I recall, several
20 weeks.

21 Q Several weeks you left the files with
22 Mrs. Clinton?

1 A That's correct.

2 Q At the Rose Law Firm?

3 A Um-hmm.

4 Q Did you retain a copy of the originals
5 that you gave to Mrs. Clinton?

6 A No, I did not.

7 As I stated, I was out of the accounting
8 business, basically, and I, you know, when the
9 statute of limitations could run, I was getting rid
10 of things.

11 Q I know you testified that you don't recall
12 the specific circumstances concerning how you came to
13 give Mrs. Clinton, but let me just ask you some
14 general questions, and I don't want you to speculate,
15 but just give me your best recollection as you can.

16 Would you have given, would it have
17 occurred to you, was there any reason why you would
18 have given those files to Mrs. Clinton without
19 somebody asking for them?

20 A No.

21 Q Okay. So is it reasonable to say, and I
22 don't want you to speculate, that somebody asked you

1 to bring the files to Mrs. Clinton?

2 A Yes.

3 Q But you don't recall whom?

4 A That's correct. I wouldn't have taken
5 them up there on my own.

6 Q Was Mrs. Clinton at the Rose Law Firm at
7 the time? I mean did she like meet you at the Rose
8 Law Firm when you dropped off the file?

9 A As I recall, she wasn't there, and that's
10 the reason I left them.

11 Q Okay.

12 A And, oh, let me think about this a minute.

13 Q Okay.

14 A She may have been when I left them. At
15 one point whenever I left them or picked them up, she
16 wasn't there, now that I think about it. At one
17 point, I did, I believe I did see her at the Rose
18 Law Firm. But now, whether it was when I left them
19 or whether it was when I picked them up, I can't
20 recall.

21 Q Okay. You stated earlier that you got a
22 receipt for the files. Do you recall who made out

1 the receipt to you?

2 A I think her secretary did, but I don't
3 recall that.

4 Q When you saw Mrs. Clinton at the Rose Law
5 Firm either when you left the file or when you picked
6 them up several weeks later, do you recall what
7 Mrs. Clinton said to you?

8 A No, sir, I don't.

9 Q Okay. Do you recall how long the meeting
10 lasted, or the conversation lasted?

11 A It was short.

12 Q Okay. Do you recall if she said anything
13 about the files or anything about the Whitewater
14 Development Corporation?

15 A I don't remember, sir.

16 Q So you got the files back?

17 A Yes.

18 Q And you retained them in your records?

19 A Yes.

20 Q Do you still have those files?

21 A No.

22 Q Why not?

1 A I don't have anybody's when the statute of
2 limitations ran. I wasn't in the accounting
3 business. I got rid of them, to the best of my
4 ability. I had stuff stored and everything, and I,
5 you know, tried to get rid of it when I could because
6 I am sure you know that paperwork can
7 become -- overtake you.

8 Q And what is the statute of limitations?

9 A I have been out of this so long. I think
10 it's three years from the date of filing. I don't
11 for sure.

12 Q But at some point after you have no need
13 for them any more for your own professional purposes,
14 you would routinely destroy your records?

15 A Yes.

16 Q And the Whitewater Development Corporation
17 files were destroyed in the same way?

18 A Yes.

19 Q Okay. Do you recall approximately what
20 date?

21 A No, sir, I don't. I have been asked that.

22 Q Okay.

1 A I wished I would have saved everything,
2 you know.

3 (Laughter.)

4 Q Do you recall if you had destroyed them
5 all at once or was it by year by year by year, or
6 several times as the year rolls over?

7 A You're talking about a particular
8 corporation?

9 Q I am talking about Whitewater Development
10 Corporation.

11 A If you're asking if I, as a year statute
12 of limitations ran, if I destroyed it then, no. I
13 destroyed it all at once.

14 Q All at once. Okay.

15 I take it you prepared the tax returns for
16 the corporation for several years running?

17 A Yes.

18 Q And you kept one big file; that is
19 Whitewater Development Corporation?

20 A Yes.

21 Q And you did not every year, as the statute
22 runs, for each tax return pull that particular tax

1 return and the working papers and threw that away?

2 A No, sir. I didn't.

3 Q You just kept the entire file and then at
4 some point in time you destroyed the entire file?

5 A That's correct.

6 Q Okay.

7 A That's the way I did all of mine.

8 Q Okay.

9 A No matter who it was for.

10 Q I know you stated that you do not recall
11 specifically when, but let me try to delve into that
12 a little bit better.

13 Do you recall if it was within a year
14 after you gave the file to Mrs. Clinton?

15 A Well, here, again, I can't answer that
16 because I don't know. You know, I don't know when
17 the last year I even did a Whitewater tax return was.

18 Q All right.

19 Well, were they destroyed before, say, the
20 1992 presidential campaign?

21 A Yes.

22 Q Okay. So it is then safe to assume that

1 they were destroyed before you received any subpoenas
2 for those records either by the Justice Department or
3 by the Committee?

4 A That's correct.

5 Q Other than this one transfer of the files
6 to Mrs. Clinton for several weeks at the Rose Law
7 Firm, do you recall anybody else requesting you to
8 see the files that you retained?

9 A I don't recall anyone.

10 Q And do you recall transferring the files
11 to anybody while they were in your possession, other
12 than the one time with Mrs. Clinton?

13 A I am going -- I am going -- let me think just
14 a minute.

15 Q Okay. Take your time.

16 A And I don't remember why or what. I don't
17 remember. There was a lady accountant named Yoly
18 Redden, that I believe was their accountant.

19 Q "Their" being?

20 A The Clintons', as I recall. And I went to
21 her office one time, but I don't recall what for.

22 Q Okay. Do you recall if you had your files

50

1 with you?

2 A No, I don't.

3 Q Okay.

4 A That's why I stopped there for a minute.

5 Q Okay. Did you have a meeting with Ms.
6 Yoli Redden?

7 A Here again I can't recall. It just hit me
8 that I did go to her office when you asked me that
9 question.

10 Q Right. And you don't recall the substance
11 of the conversation or the purpose of the visit?

12 A No. I sure don't.

13 Q And do you recall what approximate date it
14 was?

15 A No, sir.

16 Q Do you recall in relation to your transfer
17 of the records to Mrs. Clinton whether it was before
18 or after you gave the files to Mrs. Clinton?

19 A Sir, I can't answer it, because I don't
20 know.

21 Q Do you recall whether it was before or
22 after you lost contact with Mr. McDougal because, as

1 you testified earlier, had a stroke or was sick?

2 A If I answered that, it would only be
3 speculation on my part.

4 Q I don't want you to speculate.

5 A Like I stated, some of these people that
6 are quoting have got a lot better memory than me.

7 Q Now let me step back a little bit and
8 pursue another aspect of your testimony you gave me
9 about ten or fifteen minutes ago before I dealt with
10 the specifics of the transfer of the files.

11 You said that when Governor Clinton called
12 you, you had only met him once before?

13 (Pause.)

14 MR. COLE: Did you say that? I don't
15 remember that.

16 THE WITNESS:

17 THE WITNESS: I think I said I just met
18 Mrs. Clinton.

19 BY MR. DINH: (Resuming)

20 Q Mrs. Clinton one time before.

21 A Yes.

22 MR. COLE: That's what I remember.

1 THE WITNESS: Yes.

2 BY MR. DINH: (Resuming)

3 Q Have you ever met Bill Clinton?

4 A Yes.

5 Q When did you meet Bill Clinton?

6 A Well, I can recall twice. Once in the
7 airport in Memphis, I was on a trip to a NAScar race,
8 and he was over there for some reason and knew we
9 were from Arkansas.

10 And the second time was he came to our
11 church for a July 4th. It was on a Sunday or
12 something.

13 Q And is it your church in Little Rock?

14 A North Little Rock. Yes.

15 Q The airport in Memphis, do you recall
16 approximately when this was?

17 (Pause.)

18 MR. COLE: Did he ask you about
19 Whitewater?

20 THE WITNESS: To be honest, he didn't know
21 me.

22 (Laughter.)

1 THE WITNESS: It was around '75 or '76,
2 somewhere in there.

3 BY MR. DINH: (Resuming)

4 Q Before he was --

5 A No, let me think. Maybe it wasn't '75
6 now, because I didn't -- I mean '85 or '86. '85 or
7 '86.

8 Q He was Governor at the time?

9 A Yes. As I recall, he was, yes.

10 Q The substance of the --

11 A I think he introduced himself to everybody
12 there as Governor Clinton.

13 Q Everybody there meaning there was another
14 group with you?

15 A Yes.

16 Q You weren't alone?

17 A That's correct.

18 Q Did you introduce yourself to him?

19 A Um-hmm. Not just me, but everybody did.

20 Q Right.

21 Was this before or after his phone call to
22 you regarding the Whitewater records?

1 (Pause.)

2 A Here again it would be speculation, and I
3 can back this date up because I left where I was in
4 '86. So it had to be '84 or '85 that I saw him in
5 Memphis.

6 Q Okay.

7 MR. COLE: If I could ask one clarifying
8 question, Mr. Dinh?

9 You indicated that you prepared the
10 Whitewater tax returns through the '86 tax return
11 year?

12 THE WITNESS: I believe that's correct. I
13 don't -- it was either '85 or '86. I would have to
14 look at one. I don't recall the exact last date I
15 did one.

16 MR. COLE: But based on that, the time
17 that Governor Clinton called you was the time when
18 you no longer were preparing the Whitewater tax
19 returns, when he called you at home. Is that
20 correct?

21 THE WITNESS: That's what I am a little
22 unclear on. The last work I did for Mr. McDougal was

1 in '87, and I remember him coming to my house one day
2 and we sat down and tried to -- I told him I was no
3 longer doing any and I wanted out, and he said if I
4 would just help him get these done, he had had
5 somebody else who was going to start doing them.

6 And here again it'd be an assumption on my
7 part, but I am going to say it was before then, you
8 know. I just -- I don't recall when.

9 BY MR. DINH: (Resuming)

10 Q Did you mention to Governor Clinton during
11 this airport meeting in Memphis that you were
12 directly his employee for Whitewater?

13 A Huh-uh.

14 Q Did the name Whitewater come up at all?

15 MR. COLE: I will object to the
16 characterization of him as being independently in his
17 employ. That may be your opinion of the
18 relationship, Mr. Dinh, but I don't think that is
19 anywhere in the record. I wouldn't want Mr. James to
20 adopt a legal conclusion just because you throw it
21 out in a question.

22 BY MR. DINH: (Resuming)

1 Q If you would recall my question, I said,
2 "Did you say anything like that?" And I don't want
3 you to adopt anything I say. I am merely asking,
4 "Did you say anything to Governor Clinton regarding
5 your work for Whitewater?"

6 A No, sir, I didn't.

7 Q Did Governor Clinton broach the subject of
8 Whitewater with you?

9 A No, sir.

10 Q But at the time, did you know that
11 Governor Clinton was involved in Whitewater?

12 A Oh, yes, sir. But I don't think Governor
13 Clinton knew me, probably.

14 Q But you did not try to use that as a
15 common point of interest?

16 A No.

17 MR. COLE: Well, that's important,
18 Mr. James. You testified earlier that you introduced
19 yourself, so you gave Mr. Clinton your name, Governor
20 Clinton your name?

21 THE WITNESS: Um-hmm.

22 MR. COLE: When you met him in the

1 airport?

2 THE WITNESS: Um-hmm.

3 MR. COLE: And when you gave him your
4 name, did he say, "Oh, you're Charles James, the
5 Whitewater accountant?"

6 THE WITNESS: No, he didn't put it at
7 that.

8 MR. COLE: Did he say anything to indicate
9 to you that he recognized --

10 THE WITNESS: Yeah, I think, you know, he
11 recognized my name, but that's all. But, you know,
12 nothing came up about anything relating to that
13 because there was a group of people there.

14 He recognized my name, yes.

15 BY MR. DINH: (Resuming)

16 Q I will continue this, and then Mr. Cole
17 will have an opportunity to ask more clarifying
18 questions regarding this.

19 How big was the group, do you recall?

20 A Well, we had won four or five trips, so
21 there were four or five couples from our dealership,
22 and there were a bunch of other Ford dealers over the

1 State, and we changed planes in Memphis and met a
2 bunch of other Ford dealers.

3 But as I recall, it was just maybe ten
4 couples there.

5 Q So it was a fairly large group?

6 A Yeah. I mean, ten people; five couples or
7 so, yeah.

8 Q And you all were meeting together?

9 A We were all staying in there together and
10 just, you know.

11 Q So it was a public introduction?

12 A Um-hmm. That's correct.

13 Q And let me move then to the second meeting
14 that you had with Governor Clinton, or the second
15 time you came in contact with Governor Clinton, the
16 July 4th service at your church in North Little Rock.

17 Do you recall approximately when this was?

18 A No, sir.

19 Q This is while Bill Clinton was still
20 Governor of Arkansas?

21 A Yes.

22 Q Did you have an opportunity to meet

1 Governor Clinton personally?

2 A No.

3 Q You didn't come up and shake his hand or
4 anything?

5 A Not as I recall, because there were so
6 many people there for it.

7 Q So basically it was just a common
8 attendance?

9 A That's correct.

10 Q And you didn't have any conversations with
11 any other members of his family or staff while he was
12 there?

13 A None.

14 Q So you just saw him there. Did he see you
15 there and give any indication that he saw you?

16 A Not that I recall.

17 Q You prepared tax returns for Whitewater
18 Development Corporation. Correct?

19 A That's correct.

20 Q That is the corporate tax returns?

21 A Yes.

22 Q Is it your general practice to -- first of

1 all, where did you get the information that goes into
2 the tax returns generally; the ledgers and the line
3 numbers that you ultimately put in the tax return?

4 A I prepared them.

5 Q You prepared them. Did Mr. McDougal give
6 you the check stubs and supporting documents?

7 A That's correct.

8 Q Did Mrs. McDougal ever give you any of
9 these documents?

10 A Well, how do you mean by "give me"? She
11 brought me some, yes.

12 Q Brought some.

13 A Yes.

14 Q And those were while you were completing
15 the tax returns, those were your sole source of
16 documents and information relating to Whitewater
17 Development Corporation?

18 A Yes, sir. I had a small practice. In
19 fact, I wrote the checks for them on some of these
20 for a time up until they moved to North Arkansas. I
21 posted the ledgers, made the deposits for them, kept
22 up with the note payments.

1 Q So some of the information comes from your
2 own files and notes and ledgers?

3 A From my own files?

4 Q That is, you know, from the checkbooks
5 that you use in order to write the checks for them?

6 A Yes.

7 Q Okay. They were the checkbooks of their
8 company.

9 Q Right.

10 A But they put me on there so I could sign
11 and do them, you know.

12 Q Right. Right. But some other information
13 either Mrs. McDougal or Mr. McDougal brought to you?

14 A That's correct.

15 Q When you finished with the corporate tax
16 returns, you obviously send one to the IRS.

17 A Correct.

18 Q You retain a copy for yourself for your
19 files?

20 A That's correct.

21 Q Do you give a copy to Tim McDougal?

22 A Yes, I do.

1 Q Do you give a copy to Susan McDougal
2 separate from the copy you give to Jim McDougal?

3 A No.

4 Q Do you generally provide a copy to the
5 other owners of the corporation; that is, Bill
6 Clinton or Hillary Clinton?

7 A Here again, I can't recall if I did or
8 didn't.

9 MR. COLE: It's an important question. So
10 don't speculate, Mr. James. If you know the answer,
11 please give it. But it's significant.

12 THE WITNESS: I can't say for sure that I
13 did. I gave them a retained copy, you know, one
14 retained copy. Whether I gave them two or three, I
15 don't recall.

16 MR. COLE: When you said "them," you are
17 referring to, when you just said, "I gave them a
18 retained copy"?

19 THE WITNESS: The McDougals. Yes.

20 MR. DINH: The McDougals. Okay.

21 MR. COLE: So we are clear on the record
22 about that.

1 THE WITNESS: Yes.

2 BY MR. DINH: (Resuming)

3 Q But you know you definitely gave them one
4 retained copy?

5 A Yes.

6 Q But you do not know whether you gave them
7 more than one copy?

8 A That's correct.

9 Q Stepping outside of Whitewater, I want to
10 ask more generally about the general practices that
11 you have with respect to other clients that you may
12 do work for.

13 For corporate tax returns, do you
14 generally send them to other owners of the
15 corporation that you know of?

16 A No, I didn't.

17 Q You didn't.

18 A But most of my practice, I just had, you
19 know, if it was a corporation, there was just, they
20 were small, there was just one, one person.

21 Q So, with respect to that one person, you
22 definitely gave them the one retained copy?

64

1 A That's correct. Somebody always got a
2 retained copy.

3 Q In addition to the copy you keep for your
4 own files?

5 A That's right.

6 Q Do you recall other instances where you
7 gave more than one copy, more than the one retained
8 copy?

9 A Regarding Whitewater?

10 Q No, no. Just in general.

11 A To anybody I did?

12 Q Um-hmm.

13 A I could have, sir, but I don't, you know --

14 Q Okay. I don't want you to speculate.

15 A Yeah.

16 Q Other than your telephone call with
17 Governor Clinton that you have testified to, do you
18 recall any other telephone calls that you may have
19 had with Governor Clinton?

20 A I don't recall any, sir.

21 Q Do you recall any telephone calls with
22 Mrs. Clinton?

1 A All I remember is calling to get my files
2 back.

3 Q Did you talk to Mrs. Clinton?

4 A Here again, I don't remember. Here again,
5 I can't say for sure.

6 I remember calling over there, you know,
7 requesting that I get my files back. But whether I
8 talked to her or her secretary or who, I don't -- I do
9 not remember.

10 Q After your last work for Mr. McDougal,
11 that is, after the last time that you prepared any
12 work for him, have you had an opportunity to come
13 into contact again with Mr. McDougal?

14 A At the trial the other day.

15 Q At the trial the other day. Before the
16 trial the other day, have you ever had any contacts,
17 meetings, communications with Mr. McDougal?

18 A Not that I recall.

19 And the reason is I don't recall it, he
20 happened to be in the hospital in '88, the same day
21 when my mother passed away up there, and I was up
22 there for six or eight months with her, and I never

1 knew he was in the hospital at the same time to even
2 go see him.

3 So that's why I am pretty sure that I
4 didn't have any contact with him.

5 Q What about Susan McDougal?

6 A No.

7 Q No. Other than the trial the other day?

8 A That's correct.

9 Q Since you transferred the files to
10 Mrs. Clinton at the Rose Law Firm and you saw her
11 either when you dropped off the file or when you
12 picked up the file, have you had any contact,
13 communications, or meetings with Mrs. Clinton again?

14 A No.

15 Q Okay.

16 A Well, now, let me --

17 (Pause.)

18 Back when all of this -- I won't use my
19 normal language here -- came about, during the
20 campaign, I had reporters coming by being on my
21 doorstep at 6 o'clock in the morning, and for his --
22 for the President's -- I am at a loss of words

1 here -- his committee or his --

2 Q Campaign?

3 A Campaign over there, asked for a statement
4 from me.

5 I would not say anything till I had
6 something in writing that it was okay to do this.
7 And as I recall, they were out of town somewhere, and
8 I don't guess I even had any contact with them
9 because they faxed something in that it was okay for
10 me to make a statement.

11 Q Okay.

12 A Or to talk with their campaign staff over
13 there.

14 Q You said they were out of town.

15 A Um-hmm.

16 Q On an out-of-town, on a presidential
17 campaign trip, I take it?

18 A As I recall, yes, sir.

19 Q Would it have been Atlanta that they faxed
20 the thing from? Do you recall?

21 A Here again, I believe that's correct. But
22 I couldn't say for sure.

68

1 Q Let's step back a little bit.

2 You said that was sometime in 1992?

3 A Well, I don't recall a specific date on
4 it, sir. But I can show you how interested I was; I
5 didn't keep a copy of any of it. And some -- well, I
6 guess I got rid of it again -- some reporter sent me a
7 copy of it, and I don't recall the date of it.

8 Q "Of it" being the authorization form that
9 Mrs. Clinton faxed to you?

10 A Yeah. And then the statement I made.

11 Q That's okay. But do you recall if this
12 was related to the campaign?

13 A Yes.

14 Q Who contacted you from the campaign?

15 A Well, I was in contact with a lady
16 attorney from California.

17 Q Was her name Loretta Lynch?

18 A That's it.

19 Q Was this before or after the reporters
20 started showing up on your doorstep?

21 A It was all in the same time period.

22 Q Same general time period.

1 I take it you didn't make any statements
2 to the reporters?
3 A No. And I have yet to.
4 Q Did Ms. Lynch call you on the phone?
5 A Yes. I was in contact with her. So I am
6 sure, you know.
7 Q Did she come over to visit you?
8 A No. I went over there.
9 Q You went over there to campaign
10 headquarters?
11 A Um-hmm.
12 Q In Little Rock?
13 A Yes.
14 Q Can you tell me about the meeting? Just
15 whatever you can with as much specificity as you can.
16 A Well, as I recall, there was a couple of
17 them, and I just remember making the statement and
18 there were several questions that were asked, and I
19 commented on those questions, and it was all
20 pertaining to this order, this article, and here
21 again, I don't remember if it was the Washington Post
22 or New York Times that first broke the story about

70

1 Whitewater.
2 Q But it was in response to it?
3 A Yes.
4 Q You saw the article printed. So this
5 meeting was after the article came out?
6 A Well, no, it was on the same day that they
7 broke it. Everybody started calling me.
8 Q Oh. Okay.
9 (Laughter.)
10 But at this time, if I understand your
11 testimony correctly, you no longer were retaining any
12 records pertaining to Whitewater Development
13 Corporation?
14 A No, sir.
15 Q This was after your normal record
16 destruction?
17 A Yes.
18 Q Did you refer to any records in the
19 process of your preparing the statement for the
20 campaign?
21 A Yes, sir.
22 Q Were you provided those records by

1 Ms. Lynch?

2 A Yes.

3 Q Did she explain to you where she got those
4 records?

5 A No, sir. They were my records. I didn't
6 know where they came from. I have a speculation, but
7 that's speculation.

8 Q Okay. But they were your records?

9 A Yes.

10 Q Okay.

11 A They were copies, photocopies of my
12 records.

13 Q But you identified them as photocopies of
14 records that you kept in your working files for tax
15 returns?

16 A That's correct.

17 Q You said that you prepared a statement,
18 and there were some questions that you came back with
19 and asked some more questions. Do you recall how
20 long this process was? Was it over a period of days
21 or weeks?

22 A It was just, as I recall, it was a period

72

1 of days. Here again, I had to waste one of my
2 Sundays, as I recall, going over there.

3 (Laughter.)

4 I didn't have to, but I did.

5 Q Right.

6 And other than this one period, which I
7 shall return to, did you have any other contacts with
8 the campaign relating to Whitewater?

9 A Not that I recall. I mean, any contact I
10 had with them was regarding this statement here.

11 Q Let me just show you what has been
12 produced to us as documents Bates stamped JML-2755,
13 2756. Well, let me just get that.

14 A For sure I kept a copy of that statement.

15 Q I will ask you to study that. Take your
16 time.

17 (Pause.)

18 Is that your signature at the bottom of
19 page JML-2756?

20 A Yes, it is.

21 Q And it is dated March 4, 1992?

22 A Yes.

- 1 Q As far as you recall, that was the correct
2 date?
- 3 A It was around then, yes, sir, whenever.
- 4 Q And did you prepare this statement?
- 5 A Yes.
- 6 Q You typed it?
- 7 A No, no. No, no, no, no, no. We went
8 through several things before I okayed this.
- 9 Q Okay. Let me back up and ask you about
10 the several things.
- 11 A Yeah.
- 12 Q You first came over to campaign
13 headquarters.
- 14 A Um-hmm.
- 15 Q And you testified that Ms. Lynch showed
16 you some records.
- 17 A Um-hmm.
- 18 Q Did she ask you to study those records?
- 19 A Well, I don't say it was study, you know.
20 I was shown them, yes.
- 21 Q You referred to them?
- 22 A Yes.

- 1 Q And did she ask you specific questions
2 relating to the records?
- 3 A As I recall, some, yes, sir.
- 4 Q And she asked you about specific
5 transactions or certain records?
- 6 A A few, yes. Um-hmm.
- 7 Q Ask you for explanations or what your
8 recollection was?
- 9 A Yes.
- 10 Q Similar to what we are doing here?
- 11 A Yes.
- 12 Q And then at some point did there come a
13 point when somebody asked you whether you would sign
14 a statement?
- 15 A Yeah.
- 16 Q Was it Ms. Lynch?
- 17 A She was the only one I dealt with. So I
18 am assuming it was.
- 19 Q Was anybody else in these meetings that
20 you attended at the campaign headquarters?
- 21 A Well, there were two or three different
22 people in and out, yes.

1 Q In and out.
2 A I didn't know any of them.
3 Q Right. I will ask you specific names
4 later.
5 A Okay.
6 Q As to whether you recall.
7 But Ms. Lynch was the one person you dealt
8 with as the primary contact?
9 A Yes. That's correct.
10 Q So you were asked to prepare a statement?
11 A Um-hmm.
12 Q Did you write out a statement in longhand?
13 A I don't recall how I came about giving it.
14 You know, I'm sure I made me some notes. But
15 it -- they typed it up. And I had to okay it, you
16 know.
17 Q So they did the actual typing?
18 A That's correct.
19 Q "They" being somebody in the campaign?
20 A Yes.
21 Q And then you were asked to take a look at
22 a typed statement?

1 A Yes. Um-hmm.
2 Q And did you sign the first statement that
3 was drafted?
4 A No.
5 Q No, you did not. Okay.
6 A I did not.
7 Q What was the problem with the first
8 statement, if you can recall?
9 A I don't recall. I just wouldn't -- I want
10 to say I just didn't feel comfortable with it.
11 Q Okay.
12 A As I recall, there was too much legal
13 jargon in it.
14 (Laughter.)
15 Q And so you asked that it be revised?
16 A Yes.
17 Q Did you sign the second draft?
18 A I can't say what draft I did sign. But I
19 finally got down to one, you know, that -- because it
20 was the way I felt.
21 Q Right. Okay. But there were at least one
22 draft?

1 A Yes.

2 Q Maybe more?

3 A Maybe more.

4 Q And this was one of the statements that
5 you signed that you identified earlier as JML-2756?
6 That is your signature at the bottom?

7 A Yes, it is.

8 Q And you gave the signed statement back to
9 the campaign?

10 A Yes. To distribute.

11 Q Let me show you now documents that were
12 produced to us as documents Bates stamped JML-2885,
13 2886, 2887, and 2888. Again, the top of this, the
14 "Statement of Charles E. James."

15 I ask you to study that document and take
16 as much time as you need.

17 (Pause.)

18 A Okay.

19 Q Is that your signature at the bottom of
20 JML-2888, the documents labeled --

21 A Yes.

22 Q "Page 2. Charles E. James"?

1 A Yes.

2 Q And the date, again, is March 4, 1992?

3 A Yes.

4 Q In between the two pages of the statement
5 there are sheets of what appears to be accountants
6 ledgers, or at least the sheets having numbers on
7 them.

8 Are these amongst the records that you
9 were asked to look at?

10 A Yes. These are my records, yes.

11 Q These are your records?

12 A Um-hmm.

13 Q Do you recall looking at these during the
14 campaign during those meetings?

15 A If you mean this specific sheet, I don't
16 recall, but --

17 Q You don't recall this specific sheet, but
18 generally they are the type of records you would have
19 looked at?

20 A Yes, that's correct.

21 Q Do you recall signing the second
22 statement?

1 A Now that you show me, it seems like I do
2 remember signing two different ones. One was for
3 somebody, and one was for something else.

4 And I -- it seems like one was just for the
5 press or something like that, and here again, I
6 didn't recall signing two till you showed me these.

7 Q All right. But now with the help of --

8 A It seems like there were two. Yes.

9 Q Now that there were two?

10 A Yeah.

11 Q And you said one statement was for
12 distribution to the press?

13 A I believe that's correct, sir.

14 Q What was the purpose of the second
15 statement?

16 A I don't recall.

17 Q You don't recall. Was it for an internal
18 report that the campaign may have been preparing?

19 A I don't recall.

20 Q But now let me just show you again just
21 for the record, just show you again the other
22 statement that I show you and ask that you verify

1 that the difference between the two statements is the
2 inclusion of paragraph 2 and 3 on the second
3 statement dealing with the incorporation question, as
4 it were, and whereas the first statement omitted
5 those two paragraphs.

6 MR. COLE: For clarity, why don't you read
7 those into the record, Mr. James? Someone coming
8 back and reading the record without the documents
9 will have no idea what you are talking about.

10 MR. DINH: Okay. While you examine those
11 documents --

12 THE WITNESS: Okay.

13 MR. DINH: -- I will read these into the
14 record.

15 Paragraph 2 of JML-2885, which is not on
16 JML-2755, states as follows:

17 "At the corporation's inception, Hillary
18 Rodham, Susan McDougal and myself were shareholders
19 of the corporation. James and Susan McDougal managed
20 the corporate affairs on a day-to-day basis. To the
21 best of my recollection, neither Bill nor Hillary
22 Clinton was involved in the management of the

1 corporation."

2 Paragraph 3:

3 "Less than six months after the date of
4 incorporation I assigned my shares in Whitewater
5 Development Corporation to the Great Southern Land
6 Company, with the result that the Clintons owned a 50
7 percent interest in the corporation and the McDouglas
8 owned a 50 percent interest in the corporation,
9 through the Great Southern Land Company. Jim and
10 Susan McDougal were the controlling shareholder in
11 the Great Southern Land Company. From that point
12 forward, to the best of my recollection, the
13 McDouglas, through the Great Southern Land Company,
14 and the Clintons each owned 50 percent of the
15 outstanding shares of the corporation."

16 (Pause.)

17 THE WITNESS: Well, it looks like
18 paragraph 2 in this second one is different, has ben
19 added.

20 Paragraph 3 --

21 BY MR. DINH: (Resuming)

22 Q Just for the record, by this --

1 A The second statement.

2 Q The second statement at JML-2885.

3 A 2885.

4 Q 2885. Right. Paragraphs 2 and 3 are
5 added?

6 A Yeah.

7 Q And then the rest of the statement follows
8 except as the other statement?

9 A Well, basically, yes, sir.

10 Q Do you recall which version was the best
11 version, the longer version or the shorter version?

12 A No, sir, I don't. You know, if I had
13 known this was going to come to this, I would have
14 taken better notes.

15 (Laughter.)

16 MR. COLE: You haven't seen anything yet,
17 Mr. James.

18 (Laughter.)

19 MR. COLE: Wait till these two guys get
20 going.

21 (Laughter.)

22 BY MR. DINH: (Resuming)

1 Q Fortunately, we have been able to obtain a
2 number of the records and will ask you to refer to
3 those records later on in an effort to refresh your
4 memory.

5 You said that other people were involved
6 in the meetings that you had or in and out of these
7 meetings that you had with Ms. Lynch.

8 Do you recall ever talking to a gentleman
9 named Jim Lyons?

10 A Huh-uh.

11 Q Jim Blair?

12 MR. COLE: I'm sorry, you need to answer
13 "yes" or "no."

14 THE WITNESS: Jim Lyons, no.

15 Jim Blair, yes.

16 BY MR. DINH: (Resuming)

17 Q Do you recall the specifics of your
18 conversation with Mr. Blair?

19 A As I recall, Mr. Blair called me at home
20 that morning, that Sunday morning. And it was, I
21 think, before 6 o'clock even.

22 Q Okay.

1 A And told me there was a story in the New
2 York Times and asked me if I would be willing to make
3 a statement about it.

4 Q Okay. He was your initial contact?

5 A As I recall, yes, sir.

6 Q And that was when you said, "I am not
7 going to do anything unless I have authorization."
8 Is that right?

9 A Well, I went down there and -- to the
10 campaign. And when they told me all they wanted, I
11 wouldn't do anything without authorization.

12 Q Okay. And did you leave that day from the
13 campaign and waited for the authorization?

14 A As I recall, I did, yes, sir.

15 Q The authorization did not come while you
16 were at the campaign while you were waiting there at
17 the campaign?

18 A I don't believe so, sir, but I don't
19 recall. But I don't think it did.

20 Q Regarding that authorization, it was
21 signed by whom?

22 A Hillary Clinton.

1 Q Did Bill Clinton sign it?
2 A I recall her name on it. I don't his,
3 sir.
4 Q Do you recall whether Jim McDougal signed
5 it?
6 A No, sir, I don't.
7 Q Do you recall, that is, was his name on
8 it? Was his signature on the release statement?
9 A As I recall, no, sir, it wasn't.
10 Q Was Susan McDougal's signature on the
11 release statement?
12 A To the best of my recollection, it wasn't.
13 Q But you do recall Mrs. Clinton's signature
14 being on it?
15 A Yes, sir.
16 Q Was that sufficient authorization now for
17 you?
18 A Well, for me, because I was making a
19 statement or, you know, what I was going to be saying
20 was for their regard or, you know, was for them.
21 MR. COLE: Just so we are clear,
22 Mr. James, on this because I think the record is a

1 little muddy, the authorization you were seeking was
2 not authorization to act on behalf of the corporation
3 but rather to make a statement that in the context of
4 the campaign that would have some effect on the
5 Clintons, and that is why you wanted the
6 authorization.
7 THE WITNESS: That's correct. I just
8 wanted authorization from the Clintons to make
9 anything because, I, you know --
10 MR. COLE: Because I think Mr. Dinh is
11 trying to portray this as if you needed authorization
12 from the corporation, and as I understand your
13 answers, your concern was that you didn't want to
14 make a statement about the Clintons without clearance
15 from them first.
16 THE WITNESS: That's correct. That's
17 correct, yeah.
18 BY MR. DINH: (Resuming)
19 Q Just so the record is clear, I am not
20 trying to portray this as anything, I am just simply
21 trying to get what is your best recollection as to
22 what authorization you were trying to obtain.

1 A Yeah.

2 MR. COLE: But your questions, like the
3 one you asked earlier, Mr. Dinh, are loaded. You
4 asked him questions that are beyond leading; in fact,
5 they assume things that he hasn't even said in his
6 testimony. I want a clear record here. This is
7 important testimony.

8 MR. DINH: Yes. Just so the record is
9 clear, when you sit here and read back the questions
10 if you like, I did not say anything regarding
11 corporate authorization. I simply asked what names
12 or signatures were on that authorization. You can
13 draw whatever inferences you want from my questions,
14 as any reader of this record can.

15 MR. COLE: The record will speak for
16 itself. But I think we have an understanding on this
17 point now.

18 MR. DINH: There may be a reasonable
19 assumption, but, you know, you, Mr. James, as Mr.
20 Cole are reasonable people, but I assure you I make
21 no assumptions coming out of it. And certainly if I
22 do, and if an assumption is incorrect, I am sure you

1 will correct me on that because I would like to get
2 the full facts.

3 THE WITNESS: Well, just for the record,
4 the reason I wanted the Clintons' is because it was
5 for their campaign. And that was the only reason.

6 BY MR. DINH: (Resuming)

7 Q But the statement did mention Jim and
8 Susan McDougal, did it not?

9 A Yes, it did.

10 Q But you didn't see that as a problem and
11 it did not hinder their interest in any way; more as
12 a factual statement as to what their involvement was?

13 A Explain what you're asking me on this,
14 sir.

15 Q Why did you think it appropriate to
16 discuss Jim and Susan McDougal in the statement
17 without asking for their permission?

18 A Well, I didn't recall or to me I didn't
19 think -- repeat that question again, and I will --

20 MR. DINH: You can read back.

21 THE WITNESS: I wasn't quoting.
22 (Whereupon, the record was read by the

1 Court Reporter, as requested.)

2 THE WITNESS: I didn't feel that I -- I
3 didn't feel that I was quoting or discussing them
4 any, really. Their names were mentioned but --

5 BY MR. DINH: (Resuming)

6 Q Just so I get it clear, what precisely was
7 your objection to having, to issuing a statement
8 without authorization from either Bill or Hillary
9 Clinton?

10 A Well, first thing, I don't like the press,
11 and they were calling and everything and wanting to
12 come to my house and everything. This was a
13 presidential campaign, and I just felt that I needed
14 their authorization before I said anything because
15 anything I say was the campaign was asking me for.

16 I didn't know this, what was her name?

17 Q Loretta Lynch?

18 A Loretta Lynch, from Adam or Eve, you know.
19 And I wasn't about to say anything to her unless I
20 had authorization from them.

21 Q Okay. So you wanted to make sure that
22 Ms. Lynch herself has authorization from the

90

1 Clintons?

2 A That's correct.

3 Q Okay. Was Mr. Blair at the campaign when
4 you first went to the campaign headquarters?

5 A To the best of my recollection, he was
6 not.

7 Q He was not. You met Ms. Lynch there?

8 A Yes.

9 Q Okay. Did Mr. Blair tell you to meet
10 Ms. Lynch?

11 A I don't recall who told me to meet her.

12 Q But did you subsequently meet Mr. Blair
13 during one of these meetings at the campaign
14 headquarters?

15 MR. COLE: When you say "one of these
16 meetings at the campaign headquarters"?

17 MR. DINH: He has testified to a number of
18 meetings with respect to this one-week period or
19 possibly several-day period relating to your
20 statement.

21 THE WITNESS: Yes, as I recall, I was
22 there a couple of times.

1 As I recall, I did meet Mr. Blair once.

2 BY MR. DINH: (Resuming)

3 Q Do you recall the substance of the
4 conversation?

5 A No, sir, I don't.

6 Q But it had to do generally with the
7 statement that you were asked to prepare?

8 A Well, not my conversation with him. He
9 just introduced himself to me, and that's all.

10 MR. COLE: That is an example of the kind
11 of questions that I find objectionable. All I can do
12 is state it on the record because you hadn't said
13 anything to indicate that the discussion with
14 Mr. Blair had to do with the statement. Mr. Dinh
15 assumed that and then put it in his question to you,
16 and that is why I am suggesting that we listen very
17 closely, and I would suggest that Mr. Dinh refrain
18 from those kind of questions. I don't think they are
19 appropriate and they don't help get the full facts
20 out on the record.

21 MR. DINH: Your objection as to the form
22 of the question is noted on the record.

1 BY MR. DINH: (Resuming)

2 Q Did you recall meeting Ms. Thomasses,
3 Susan Thomasses, at the campaign?

4 A As I recall, I have never met her.

5 Q Do you recall meeting Ms. Betsy Wright?

6 A As I recall, I have never met her.

7 Q Mr. Foster, Vincent Foster?

8 A Never.

9 Q Mr. Les Patten, P-A-T-T-E-N?

10 A No, sir. That name does not ring a bell
11 with me.

12 Q How about Norris Weese, W-E-E-S-E?

13 A No, sir. Basically, I spoke with this
14 Loretta Lynch, and there were a couple of other
15 younger people in and out of there that were
16 bringing some documents to her and things. And that
17 was it.

18 Q And then after this several meetings in
19 this one-week period or several-day period pertaining
20 to your statement, do I understand your previous
21 testimony correctly that you had no other contacts
22 with the 1992 presidential campaign?

1 A Not that I recall, sir.

2 Q Besides the various testimony that you
3 provided to the FBI agents or other investigators or
4 other attorneys involved in the investigation of the
5 Whitewater affair, have you had any contacts with
6 anybody affiliated with the administration after the
7 1992 campaign?

8 A Not that I recall, sir.

9 Q You testified earlier that you had an
10 interview with some investigators working for the
11 FDIC?

12 A Yes.

13 Q Do you call that?

14 A Yes.

15 Q Do you recall that it was approximately
16 sometime on or about August 3, 1994?

17 A I don't remember the date.

18 Q Would that be consistent with your
19 recollection?

20 A Here again, sir, I do not recall the date.
21 I can tell you where we met, but that's it.

22 Q Let me just show you a set of documents.

1 Actually, they are one document with a number of
2 pages. They reflect the type of notes of that
3 interview of the agents that you talked with, and
4 they are Bates-stamped SEN-22124 through SEN-22131.

5 At the top of the first page is a label
6 "August 3, 1994, Interview with Charles James, Kent
7 Goss, Dorn Dean, Thomas Murray."

8 Do you recall the names of the agents?

9 A Would you go over them again?

10 Q Okay. Do you recall Kent Goss, G-O-S-S?

11 A I think I do.

12 Q Dorn Dean, D-O-R-N; last name, Dean,
13 D-E-A-N?

14 A I think, yes.

15 Q Thomas Murray, T-H-O-M-A-S?

16 A That name doesn't ring a bell like the
17 other two.

18 Q But do you remember that there were three
19 people?

20 A Three people.

21 Q What I am doing, Mr. James, was I am about
22 to show you a page of those notes, but I was just

1 taking a pen and blacking out some comments, some
2 investigative comments that the investigator put into
3 the memorandum in addition to what their recollection
4 of the transcription of the interview was.

5 MR. COLE: I am sorry, could you explain
6 that again?

7 MR. DINH: Right.

8 MR. COLE: The copy I have of the pages
9 you have does not have any notes on it. So I don't
10 know what notes you are referring to.

11 MR. DINH: I am not talking about notes as
12 such. They are typed comments. But they are
13 obviously not part of the transcription of the
14 interview as such. Most of this is a report of the
15 interview. They are portions of the document in
16 which -- and they are designated by brackets.

17 MR. COLE: So what is your reason for not
18 showing the witness the entire document? I think the
19 witness is entitled to see whatever is in our record.
20 I am going to give him a copy that I have that has
21 everything.

22 MR. DINH: That's fine. That's fine.

1 THE WITNESS: I guess I have got a
2 question right here. I met with these people, and
3 they just asked me questions and everything, and I
4 was honest with them as I could be. And what did
5 they do? Write up a report?

6 MR. DINH: They did.

7 MR. COLE: That was going to be my first
8 question to you is whether you had ever seen this or
9 had an opportunity to review it or approve it because
10 I am always concerned when people read notes of
11 interviews of witnesses and then characterize those
12 as the witness's statement when the witness may have
13 never seen the notes and they may or may not agree
14 with what's been written.

15 THE WITNESS: I guess that's my biggest
16 question. How do I know what these dudes have said?

17 BY MR. DINH: (Resuming)

18 Q Right. Let me give you --

19 A I am about to get angry.

20 Q Oh, no, no, no. Let me assure you I was
21 just going to ask you for authentication and ask you
22 for your true recollection and simply show these to

1 you as refreshers of your memory to see whether you
2 recall stating these to these agents.

3 You know, no one but you -- and I was going
4 to wholly authenticate and give you an opportunity
5 to --

6 A I guess I am getting to feel like I am
7 almost on trial here when I am here to try to help.

8 Q No.

9 A And if I am on trial, I am going to get me
10 an attorney like everybody else.

11 If I am not, I will help to the best of my
12 ability.

13 Q Right. Let me assure you you are not on
14 trial. We do not have that power in order to try or
15 to indict or to prosecute, and, of course, you know,
16 we have advised you that you have the right to an
17 attorney.

18 We are just simply trying to get the facts
19 out as best we can.

20 A And that is what I want to do to help
21 everybody I can because I have nothing -- I am not
22 ashamed of anything I did.

1 Q Right.

2 A And I will try to help anybody I can. But
3 I don't want to feel like I am being put on trial.
4 And I had no idea what these people have done. I was
5 just trying to help them.

6 Q And I just simply, because now it is now
7 an additional year or two after your testimony, I am
8 going to give you these notes and ask you to refer to
9 them and see if they refresh your memory with respect
10 to the events you have testified.

11 And with Mr. Cole's objection, I will
12 undelete the blacked-out portions. But fortunately,
13 it is not very easy.

14 So, as Mr. Cole offered, I would ask
15 you to refer to his set of notes, and I will use my
16 set.

17 MR. COLE: Just so there is no
18 misunderstanding here among the staff, why don't you
19 show me what you are proposing to black out, and
20 perhaps I will agree with you.

21 MR. DINH: SEN-22126.

22 MR. COLE: Though I doubt it.

1 MR. DINH: No, you are not being very
2 agreeable, Lance.

3 MR. COLE: I am open -- minded. What is
4 that you wanted to black out?

5 MR. DINH: The last sentence of the second
6 full paragraph.

7 MR. COLE: The paragraph that begins,
8 "After he completed"?

9 MR. DINH: Um-hmm.

10 MR. COLE: So, where these investigators
11 made a note that says, "Compare this to earlier
12 comment that he never saw Bill Clinton and saw
13 Hillary Clinton only once" --

14 MR. DINH: Right.

15 MR. COLE: -- it appears that they have
16 made a note about what they perceive to be a
17 discrepancy in his statement, and you didn't want to
18 show Mr. James that?

19 MR. DINH: Well, I was going to propose
20 that we delete out all any such bracketed comments in
21 any documents.

22 MR. COLE: Well, I think Mr. James should

100

1 be permitted to see the entire document as it was
2 taken down by the investigators and be given as much
3 time as he wants to review it and be permitted the
4 opportunity to make any statement or comments he
5 makes.

6 So I am going to give you the entire
7 document as it was given to us by the FDIC,
8 Mr. James, and suggest that you take as much time as
9 you want to read it.

10 It is about a half dozen pages of
11 typewritten information.

12 THE WITNESS: I guess my main thing is, if
13 they're giving all this out and it's based on me, why
14 didn't they send me a copy or let me know they're
15 doing it?

16 MR. DINH: That is their procedure, and I
17 cannot explain it to you. But let me assure you that
18 you will get a copy of the deposition transcript that
19 we have here today. And I will Federal Express that
20 to you as soon as we receive it.

21 MR. COLE: We will go off the record for a
22 minute.

1 MR. DINH: Yes. Did you need to take a
2 break? Did you need to use the restroom or anything?

3 THE WITNESS: I need to read this, I
4 guess, since it's supposedly --

5 MR. DINH: Okay.

6 MR. COLE: Why don't you go ahead and take
7 your time?

8 (Discussion off the record.)

9 MR. COLE: I think this might be a good
10 time to take a lunch break. This is a long document.

11 MR. DINH: Sure.

12 MR. COLE: You may want to review it over
13 the lunch break.

14 MR. DINH: Sure. That's fine.

15 We are off the record.

16 (Whereupon, at 2:05 p.m., the taking of
17 the deposition was recessed, to reconvene at 3:00
18 p.m., this same day.)
19
20
21
22

1 AFTERNOON SESSION

2 Whereupon,

3 CHARLES E. JAMES

4 the person being deposed at the time of the morning
5 recess, having been previously duly sworn, was
6 further examined and testified as follows:

7 EXAMINATION (Continued)

8 BY MR. DINH: (Resuming)

9 Q Mr. James, while we were off the record,
10 you have had a chance to examine the full report of
11 the agents from FDIC of your August 3, 1994,
12 interview produced here as SEN-22124 through
13 SEN-22131?

14 A Correct.

15 Q I am going to ask you some questions
16 relating to the three specific sentences related in
17 that report and then you will have an opportunity to
18 address whatever else you want regarding that report.

19 A Regarding the whole statement I can
20 address it?

21 Q Okay. Great. We can go ahead. Well,
22 actually, let me ask you the specific questions

1 first.

2 A All right.

3 Q And then you can address whatever else
4 that I know you have, and I know you may have some
5 concerns with it, and I want you to have an
6 opportunity to put that on the record.

7 A I just want you to know that this, a lot
8 of this is not mine.

9 Q Okay. Great. That is exactly the kind of
10 statement that --

11 A And I wish they were here.

12 (Laughter.)

13 MR. COLE: When you say, "It's not mine,"
14 Mr. James?

15 THE WITNESS: Well, these are not my
16 words.

17 BY MR. DINH: (Resuming)

18 Q It is not your recollection of what you
19 said during the --

20 A That's correct.

21 Q The first instance I would like to direct
22 your attention to occurs on page SEN-22126.

1 A Okay.

2 Q And on the second full paragraph there,
3 the paragraph starting with "After" --

4 A Okay.

5 Q Let me read that into the record.

6 A Okay.

7 Q "After he completed preparation of
8 Whitewater tax returns, he gave them to Jim McDougal
9 for him to obtain the necessary signatures. He added
10 that he did send off copies of the tax returns to the
11 owners. He then stated, 'I never saw the Clintons
12 all that much.'"

13 Then in brackets, it says, "Compare this
14 to earlier statement that he never saw Bill Clinton
15 and Hillary Clinton only once."

16 Did you send copies of the tax returns to
17 Bill or Hillary Clinton?

18 A Like I stated earlier, I don't remember if
19 I did or not. I gave -- I know I always gave at least
20 one copy. In some instances I did send off, I'm
21 sure. But I do not recall this.

22 I did not state this to them either.

1 Q You did not state this to the
2 investigators?

3 A That's right.

4 Q You dispute the sentence there that, "He
5 added that he did send off copies of the tax returns
6 to the owners."

7 A That's correct.

8 Q Okay. And did you tell the agents, "I
9 never saw the Clintons all that much"?

10 A I probably did, because I told you that.

11 Q Right. And that is perfectly consistent
12 with your testimony that you saw them once or twice?

13 A That's correct.

14 Q With respect to the fourth full paragraph
15 there --

16 A Um-hmm. I've got it marked also.

17 Q Right. Let me read that to you, also, on
18 page SEN-221126, and that states, "He stated he never
19 mailed the Clintons everything." I mean, I'm sorry,
20 "He stated that he never mailed the Clintons
21 anything."

22 Did you say that to the agents?

106

1 A I don't recall saying that.

2 Q You don't recall. You may, consistent
3 with your testimony here today, is that you have
4 mailed it to them or you may not have; you have no
5 specific recollection?

6 A Yes, sir, that's correct.

7 Q Okay. Let me direct your attention now to
8 several pages beyond that, a document Bates-stamped
9 SEN-22128.

10 Let me direct your attention to the fifth
11 full paragraph, the one that starts, and I will read
12 the entire paragraph.

13 A I have already got it marked, probably
14 what you're going to ask.

15 Q Okay. "He was asked to explain his
16 comment on the Whitewater documents that Hillary
17 Clinton. He responded that he took these documents
18 to her office sometime after preparing the 1986 tax
19 returns. He believes that at the time of the
20 delivery, there were delinquent filings and that Jim
21 McDougal was inaccessible after having suffered a
22 stroke."

1 And I would like to direct your attention
2 specifically to the next sentence: "He said that
3 Bill Clinton called him a couple of times at home and
4 requested him to transfer the Whitewater documents to
5 him. James also said that Hillary Clinton called him
6 and told him that their accountant was handling the
7 filings of past-due tax returns. He stated that he
8 gave to Hillary Clinton the original Whitewater
9 documents in his possession and that he kept no
10 copies for himself. He said that the originals were
11 returned to him at a subsequent date."

12 Let me direct your attention to the
13 sentence that says, "He said that Bill Clinton called
14 him a couple of times at home."

15 To the best of your recollection, do you
16 recall whether Governor Clinton called you once or
17 more than once at home?

18 A I only recall the one time.

19 Q And you have testified to that earlier?

20 A Yes.

21 Q And so you dispute the statement recorded
22 here by the agents?

1 A I want to go on the record that I dispute
2 a lot of statements that are in here that are not my
3 words but theirs.

4 Q Right. Okay. The ones I am drawing your
5 attention to are --

6 A Yes.

7 Q -- in my mind, some of the more important
8 ones, and I want to give you an opportunity to
9 address them specifically.

10 A Yes.

11 Q Rather than a general address with respect
12 to the entire report.

13 A And in the first place, I wouldn't make an
14 exact statement on something that I didn't remember,
15 and that is what this gentleman has made out of it,
16 which I fully disagree with. And I wish he was
17 sitting here today.

18 MR. COLE: Mr. James, just so we are clear
19 on our record here, you have never seen this
20 particular memorandum before it was shown to you
21 today?

22 THE WITNESS: I have never seen this

1 document here at all.

2 MR. COLE: And you had no opportunity to
3 review it after the interview or to --

4 THE WITNESS: None whatsoever.

5 MR. COLE: Or to correct it?

6 THE WITNESS: I never knew there was a
7 document.

8 MR. COLE: Okay.

9 BY MR. DINH: (Resuming)

10 Q And the next sentence I would also like to
11 direct your attention to: "James also said that
12 Hillary Clinton called him and told him that their
13 accountant was handling the filings of past-due tax
14 returns."

15 Do you recall a phone call from
16 Mrs. Clinton, Hillary Clinton, after Governor Clinton
17 called you and asked you --

18 A I do not recall that.

19 As I stated to you, for some reason, I
20 knew that this Yoly Redden was doing it. And
21 whether it was for taking the files to Hillary's
22 office or when I picked them up or what point.

110

1 And it seems to me that I did go to this
2 Yoly Redden's office once, but I can't remember that
3 I even -- I don't believe that I -- I wouldn't know what
4 she looked like. I don't recall ever talking to her --
5 well, I might have talked to her, but I don't ever
6 recall seeing her.

7 Q Right. Okay.

8 "Her" being Yoly Redden?

9 A That's correct.

10 Q And let me just make sure on this subject,
11 I think your prior testimony was, and correct me if I
12 am wrong, was that you are sure that somebody called
13 you to tell you to bring the documents over to the
14 Rose Law Firm to Hillary Clinton, you cannot say for
15 certain whether it was -- you cannot recall for certain
16 who it was?

17 A That's correct.

18 Q And do you recall Mrs. Clinton at any
19 point telling her or telling you, Mrs. Clinton or
20 Governor Clinton, telling you that their accountant
21 was handling the tax returns, the McDougal-Clinton
22 tax returns?

1 A Like I stated just a while ago, I don't
2 recall that, but it might have come up when I
3 delivered the file there or picked the file up.

4 But I did state that I knew she was doing
5 it because I went over there at one point.

6 Q Right. Okay.

7 Well, I have no other instances in this
8 memorandum that I would like to direct your attention
9 to.

10 You have stated for the record that you
11 dispute a number of things both in the report and
12 some specific instances. I would like to give you an
13 opportunity to make any statements you would like
14 about that.

15 A Just, you know, it would appear that his
16 statement that I was a five percent shareholder of
17 the Great Southern Land Company and that this may
18 have provided to him as a compensation, well, now,
19 that wasn't so.

20 Q And let me ask --

21 A "He believes that Bob Brown,
22 Incorporated," I didn't remember who incorporated it.

112

1 That was evidently put in there. Or they gave the
2 name like you did, and I remembered it.

3 Q Let me just specifically for the record
4 identify that you were referring to page SEN-22125?

5 A That's correct.

6 Q Okay.

7 A And here again, it's going to contradict
8 what I told you. "Charles James stated he never saw
9 Bill Clinton." That was dealing with this, you know.

10 Q Right.

11 A Their statements in here, I wish they were
12 sitting in front of me so I could contradict them.

13 Q Right.

14 A Because this is not a true and correct
15 statement.

16 Q Okay. And that again you were reading at
17 the bottom of page on 22125?

18 A That's correct.

19 Q And as far as to the best of your
20 recollection, the testimony you gave to us here today
21 is your best recollection?

22 A That's correct.

1 Q And it will be recorded on the official
2 transcript.

3 A That's right.

4 Q Okay.

5 A I mean, I told you when I saw him in the
6 airport and the other time.

7 Q Right. Thank you.

8 A And he uses "stated" in here a lot. I
9 never used that word.

10 Q Right.

11 A Because I have told them just like you,
12 after that many years, I didn't remember anything,
13 and I didn't make any direct statements to them.

14 In regard to what the gentleman says about
15 here there was interest rates went up and there was
16 gasoline prices went up. He says I am off by about
17 six years. But who appointed him God didn't know
18 when everything was.

19 Q Let me for the record, you were referring
20 to the second paragraph of page SEN-22127?

21 A That's correct.

22 Q Okay.

1 A I never -- I would have no reason to make
2 this comment right here. He added that, "Chris Wade
3 had a large presence in the Flippin, Arkansas, area
4 as a real estate salesman."

5 Q Again, that is at the bottom of the third
6 paragraph of 22127.

7 A Those are not my words. I wouldn't have
8 said anything like that.

9 Q Okay. Did you understand Mr. Wade to not
10 have a significant presence in Flippin?

11 A Well, he had a real estate office there.

12 Q Right. And you knew that at the time?

13 A Yes.

14 Q All right.

15 A He just goes on through here that I stated
16 this and I stated that. And that's not true.

17 Ongoing Tickler system, those are not my words. I
18 didn't have it. I don't use that word. Top of page
19 22128 there.

20 Q In relation to the document retention
21 policy?

22 A That's correct.

1 Q Yes.

2 A And here on page 22129, "It's curious that
3 he would state that he had not complied to this
4 recent request instead of stating that he could not
5 comply, and he was inclined to do so."

6 Well, I think he is stating something here
7 that is completely, you know -- I told them. I told
8 the grand jury -- or I didn't tell the grand jury; I
9 told the Federal marshal and everybody that I didn't
10 have anything.

11 Q Right.

12 A And this guy is putting words in here that
13 I didn't say.

14 Q And that, you were referring to 22129, the
15 first full paragraph?

16 A That's correct.

17 And here it says that there's three
18 drafts. I don't -- you know, I don't remember three
19 drafts. There could have been. I told you that.

20

21 Q Right. You told me that there was at
22 least one, there may have been more.

1 A But why he says I stated in here, because
2 I did not do that.

3 Q Again, that was toward down the bottom of
4 page SEN-22129.

5 A "He said there was no smoking gun-type of
6 document contained in the Whitewater documents he
7 gave to the Clintons."

8 I don't ever recall saying that, and
9 that's not my type of word to use.

10 Q That was at 2230 and the type of word
11 you're talking about is the "smoking gun"?

12 A That's right.

13 A If this gentleman wants to quote somebody,
14 he needs to learn how to quote them and not put his
15 own words in there.

16 And he needs to, right here on this last
17 statement on 22131, he got the questioning me about
18 my bank accounts, which I didn't consider were any
19 part of his investigation or he needed to know
20 anything about.

21 Q These were the bank accounts you maintain
22 at Madison Guaranty?

1 A Yes. My personal accounts.

2 And I told him in no uncertain words how I
3 felt about that.

4 Q Mr. James, other than your bank account at
5 Madison Guaranty, did you have any other relationship
6 with Madison Guaranty Savings and Loan Association?
7 Did you have any loans with the Madison Guaranty
8 Savings and Loan Association?

9 A Yes, sir. There was one, and we went over
10 it at the trial down there, where there was a loan
11 for an interest payment on Great Southern Land
12 Company. And they've got all the documents there,
13 and I am sure you've got them also.

14 Q Right. Right. Now, was this a personal
15 loan?

16 A Yes.

17 Q Your own personal loan?

18 A Um-hmm.

19 Q Did you have any relationship with Madison
20 Bank and Trust or the Bank of Kingston?

21 A How do you mean?

22 Q Do you maintain checking accounts? Do you

1 have any loans there?

2 A No, not now.

3 Q Okay. You did? Did you have any loans at
4 the Madison Bank and Trust?

5 A Here again, I don't remember whether -- they
6 changed. It was Madison Bank and Trust; it changed
7 to Madison Guaranty Savings or it was Madison
8 Guaranty and became --

9 Q No, I'm sorry. I think we are talking
10 about two separate entities here.

11 Mr. McDougal owned part of Madison Bank
12 and Trust, which was formerly Bank of Kingston.

13 MR. COLE: And there is a real potential
14 for confusion here. So let's slow down some and make
15 sure that we are all working from a common base of
16 knowledge.

17 Mr. James, I don't think Mr. Dinh or
18 anyone else at the table would argue with me when I
19 tell you that the Bank of Kingston in Kingston,
20 Arkansas, in Northwest Arkansas, was purchased by
21 Mr. McDougal and others and the name of that
22 institution was changed to Madison Bank and Trust.

1 THE WITNESS: Okay.

2 MR. COLE: And then a few years later, a
3 separate and entirely different institution,
4 Mr. McDougal purchased an interest in a savings and
5 loan in Southern Arkansas, and he changed the name of
6 that institution to Madison Guaranty Savings and
7 Loan, and they are two entirely different financial
8 institutions. But they each have the word Madison in
9 the name. And I think we need to be careful and not
10 confuse one or the other.

11 THE WITNESS: I don't ever recall having a
12 loan or a banking, a checking account at Madison Bank
13 in Kingston.

14 MR. DINH: Okay.

15 MR. COLE: Could I ask a clarifying
16 question on what we just covered?

17 MR. DINH: Sure. Go ahead. I am actually
18 just reviewing my notes. I think I may be done. But
19 you go ahead.

20 MR. COLE: The loan that you mentioned
21 that you had from Madison Guaranty Savings and Loan,
22 with regard to Great Southern Land Development

120

1 Corporation, did that have anything to do with the
2 Whitewater property?

3 THE WITNESS: I don't recall that it did.
4 They had all those documents down there.

5 MR. COLE: "Down there" being at the
6 trial?

7 THE WITNESS: At the trial.

8 Where I took out a loan and it was to pay,
9 I think it was to pay an interest payment it said.
10 And there were several transactions in there. And
11 Mr. McDougal paid me back all the money that he owed
12 me on that.

13 MR. COLE: Oh, I see. I may have
14 misunderstood your response. You took out a personal
15 loan from Madison Guaranty Savings and Loan so that
16 you could make an interest payment for Great Southern
17 Land on Mr. McDougal's behalf or on behalf of the
18 corporation?

19 THE WITNESS: On behalf of the
20 corporation.

21 MR. COLE: I see. I missed that. The
22 way your answer came out, I thought you were saying

1 that you owed money to Great Southern Land.

2 THE WITNESS: No.

3 MR. COLE: And that you borrowed from
4 Madison Guaranty to pay them the interest.

5 THE WITNESS: No.

6 MR. COLE: Okay. That's helpful. Thank
7 you.

8 THE WITNESS: And all that is documented,
9 and the FBI has got all of it, and the deposit slips
10 where it was paid back; everything. And I am sure
11 you do, too.

12 MR. DINH: I have nothing further at this
13 time.

14 Like we stated at the outset, Mr. Cole
15 will proceed to ask you some questions relating to
16 the testimony you just gave in response to my
17 questions. And then Mr. Jiampietro will delve with
18 you more into the actual documents and the work you
19 did for, among other things, Whitewater and
20 Mr. McDougal.

21 MR. COLE: I will try to be very brief. I
22 just have a few follow-up questions in the areas that

1 Mr. Dinh has covered, Mr. James.

2 EXAMINATION

3 BY MR. COLE:

4 Q First, what I would like to do is focus
5 your attention, if I could, on the period prior to
6 the incorporation of Whitewater Development
7 Corporation, which would be the time between the
8 purchase of the property in 1978 and the formation of
9 the corporation in June of 1979, based on the
10 documents that we have, and ask you some questions
11 about what you were doing in that time period.

12 During that time period, were you
13 providing accounting services for a number of
14 companies for Mr. McDougal?

15 A Yes.

16 Q And can you recall what you did with
17 respect to the Whitewater Development at that time
18 before the incorporation?

19 A No, sir, I really can't.

20 Q The reason I ask, you stated earlier in
21 your testimony that at least for a period you did
22 things for Whitewater other than prepare tax returns.

1 You said you had checkbooks and made some payments,
2 and I am trying to determine whether you did those
3 kind of things before the formation of the
4 corporation.

5 A Sir, as I recall, I don't recall any
6 checkbooks or anything. Basically, I think the land
7 was just owned, and that was it. And that's all I
8 recall of it until the corporation was set up.

9 Q And when did you first learn of the
10 purchase of the land?

11 A I can't give you a specific date, but I
12 assume it was when it was bought, because I was
13 doing, you know, their --

14 Q My next question was going to be whether
15 at the time of the incorporation you already knew
16 about the land purchase, and I take it that you --

17 A Yes, sir, I am sure I must have, because I
18 was doing their accounting work for them.

19 Q And did you prepare Mr. McDougal's tax
20 returns for 1978?

21 A Yes, sir. I am sure I did, because I was
22 doing their accounting work.

1 MR. DINH: His personal tax returns?

2 THE WITNESS: Yes.

3 BY MR. COLE: (Resuming)

4 Q And do you have any recollection of
5 reporting any information relating to Whitewater, the
6 Whitewater Development, in connection with his 1978
7 tax returns?

8 A Sir, I can't remember back then.

9 Q I understand. It has been 18 years ago.
10 So it is perfectly understandable.

11 And I believe I understood your testimony
12 on this point correctly, but I want to go back over
13 it just to make sure there is no confusion.

14 Prior to the incorporation of Whitewater,
15 the Whitewater Corporation, were you aware that the
16 Clintons had an interest in the land?

17 A I am sure I must have, yes. Right now I
18 can't remember how it was purchased or anything like
19 that.

20 I don't even -- and here again, I would be
21 making a statement that I wasn't sure if I said that
22 I did.

1 Q So you don't know one way or another?

2 A I do not recall, no, sir.

3 Q And sitting here today, your best present
4 recollection is that you learned of the Clintons'
5 involvement when Mr. McDougal discussed forming the
6 corporation with you?

7 A Here again, sir, I do not remember if the
8 Clintons were involved with the initial purchase or
9 when it was incorporated.

10 MR. DINH: But certainly by the time it
11 was incorporated, you knew of it because you were
12 involved in it?

13 THE WITNESS: Yes.

14 MR. DINH: But it may have been earlier
15 than that?

16 THE WITNESS: Yes. But I don't recall.
17 But I do know at the time it was incorporated they
18 were part of it.

19 MR. DINH: Right.

20 BY MR. COLE: (Resuming)

21 Q Focusing now on the actual incorporation,
22 you testified that you purchased a small percentage

1 of the stock in the corporation?

2 A Yes, sir.

3 Q And do you recall the amount, dollar
4 amount of the stock you purchased?

5 A No, sir.

6 I can't even remember the percentage that
7 I did. But I purchased at par value. And some of
8 these corporations they set up at a penny a share and
9 some of a dollar a share. And it was based on the
10 total outstanding shares as to what percent they and
11 what I paid for it.

12 Q In terms of dollars that you paid, do you
13 have a recollection of whether it was closer to \$100
14 or \$1,000 or \$10,000 order of magnitude?

15 A No, sir. It was either -- you know, it was
16 not \$100,000.

17 But here again, I didn't have anything
18 just to show, you know, like checks or anything as to
19 when I paid for it. So I couldn't go back and look
20 and see.

21 Q And do you recall whether at that time the
22 Clintons were aware that you had purchased some of

1 the stock from Mr. McDougal?

2 (Pause.)

3 And what I am really asking is: Is there
4 any information that you have that would indicate the
5 Clintons were aware of that?

6 A No, sir.

7 Now I, you know, I guess it would have
8 been an assumption on my part that, you know, that
9 they knew. But as far as any documentation or
10 anything like that --

11 Q And what I am focusing here just to again
12 try to avoid confusion, we do have various corporate
13 filings later that show you as a shareholder, that
14 the Clintons would have seen.

15 A Yes.

16 Q But what I am talking about is the money
17 that you paid to Mr. McDougal. Do you have any
18 reason to believe that the Clintons knew that you
19 paid money to Mr. McDougal?

20 A I have no knowledge. You know, I
21 wouldn't know. I don't know how to answer your
22 question except that I don't know.

1 Q "I don't know," is a perfectly acceptable
2 answer. Don't feel badly about that.

3 A That's the only way I can answer.

4 Q And do you know whether the McDougals
5 shared that money that you paid to him, whether
6 Mr. McDougal shared the money that you paid to him
7 with the Clintons?

8 A Well, here again, in the best of my
9 recollection, it went into the corporation account.

10 Q The money went into the corporate
11 accounts?

12 A Yes.

13 Q And what do you base that on? Do you
14 remember that from preparing the --

15 A No; I said the best of my recollection
16 that's where it went. But, you know, I know there
17 was capital stock in there. So -- and it had to total
18 what we paid in.

19 Q And still focusing on the actual formation
20 of the corporation, were there any tax consequences
21 that followed from the formation of the corporation
22 that you can recall?

1 A Do you mean immediately?

2 Q Tax consequences for the individual owners
3 who formed the corporation.

4 A Not that I recall any.

5 Q And did you give Mr. McDougal any advice
6 on the tax consequences of the formation of the
7 corporation?

8 A Not that I recall, sir.

9 MR. DINH: Just so we are clear as to
10 that, I did not get into these issues. Joe will
11 attempt to get to these issues more in depth. Feel
12 free to start them now, but I note that I was asking
13 you more generally regarding the initial
14 relationships and the like. But we will get into the
15 actual tax, incorporation dates, and personal precise
16 percentages when Mr. Jiampietro gets into it.

17 BY MR. COLE: (Resuming)

18 Q Moving forward, then, after the formation
19 of the corporation, did you ever send copies of the
20 tax returns that you prepared to the Clintons to
21 review before they were filed?

22 A Not that I recall.

1 Q And we went over this in detail, so I
2 don't want to belabor it by going over it again, but
3 your recollection today is that you would have given
4 a copy of the tax return to Mr. McDougal?

5 A Yes.

6 Q Retained a copy in your file?

7 A Yes.

8 Q And filed a copy on behalf of the --

9 A To Internal Revenue Service.

10 Q The Internal Revenue Service.

11 And who obtained the signatures for that?

12 MR. DINH: I'm sorry. And may have given
13 other copies to either Mr. McDougal or other owners.

14 THE WITNESS: I could possibly. I don't
15 remember.

16 MR. DINH: Right.

17 MR. COLE: See, that is one place I think
18 where we may have some difference. You questioned
19 him, and eventually he gave that response, but when
20 he first was questioned, he did not indicate that he
21 did that. I am just trying to get what he did.
22 Anything is possible, but I am trying to get what he

1 remembered. I think the record is what it is.

2 MR. DINH: The record is what it is.

3 BY MR. COLE: (Resuming)

4 Q And you are not a certified public
5 accountant. Is that correct, Mr. James?

6 A No, sir, I am not.

7 Q And you have a degree, a bachelors degree,
8 in accounting. Is that correct?

9 A That's correct.

10 Q Your professional training. And do you
11 have any special training beyond your bachelors
12 degree in Federal taxation?

13 A No formal degree, no, sir.

14 Q And no formal training or special courses
15 or anything like that?

16 A Well, you know, when I worked for a CPA
17 firm, I took courses and things, yes, sir.

18 Q Which courses? What courses did you take,
19 if you recall?

20 A I can't answer that, sir. I don't
21 remember.

22 I mean, you know, every year they offer

132

1 taxation courses that, you know, sometimes you go to
2 and sometimes you don't.

3 Q And during the time that you were
4 preparing the Whitewater corporate tax returns, which
5 I believe you testified would have been '79 through
6 '86?

7 A Yes, sir. I originally said '85 and told
8 them I did not remember the exact year. And they
9 produced some down there that I did for McDougal in
10 '86 in that Flowerwood Farms that ended in March 31
11 of '87.

12 So as of the last year I did something, I
13 really don't recall. I thought it was '85. It might
14 have been of '86.

15 But the dates on the tax returns will
16 reflect that.

17 Q During that time, did you ever obtain any
18 information from the Clintons for use in filing the
19 tax returns?

20 A Not that I recall, sir, because I never
21 talked to them or saw them.

22 I mean here again, you all can put, you

1 know, put that any way you want, but, yes, I did talk
2 to them, but not about those matters.

3 MR. DINH: I understand.

4 BY MR. COLE: (Resuming)

5 Q I understand.

6 A Yes. Well, after this guy, I am kind of --

7

8 MR. DINH: Indicating "this guy" being
9 pointing to the FDIC.

10 THE WITNESS: Yeah. The FDIC.

11 MR. COLE: That's why we have a court
12 reporter here taking down your exact words.

13 THE WITNESS: Yeah.

14 MR. COLE: So that there will be no
15 confusion about it.

16 MR. DINH: You weren't pointing at anyone
17 at this table when you said that.

18 THE WITNESS: No.

19 And here again, I want to state that, you
20 know, sometimes you say something one time and the
21 next time it might come out a little different. It
22 could be construed different.

1 BY MR. COLE: (Resuming)

2 Q And when you were preparing the Whitewater
3 corporate tax returns, was the person you dealt with
4 primarily Mr. McDougal?

5 A Yes.

6 Q And what dealings, if any, did you have
7 with Mrs. McDougal with respect to the preparation of
8 the Whitewater tax returns?

9 A Well, I mean, she was always there, and,
10 you know, and worked in the businesses, and whenever
11 I wanted something, I really looked to Jim that he
12 might have had her to get it for me or something.

13 But I really always looked to him.

14 Q I am just trying to understand who had the
15 most involvement, and I realize it is over a period
16 of years.

17 A Yeah. Yeah.

18 Q And did Mr. McDougal ever indicate that he
19 needed to get information from the Clintons or get
20 approval from the Clintons before taking any action
21 with regard to Whitewater?

22 A If he did, he never discussed it with me,

1 sir, or anything; not that I recall.

2 Q So you were looking to Mr. McDougal as
3 your primary client?

4 A That's correct.

5 Q At the time?

6 A That's correct.

7 Q Even though he was only one of four of the
8 owners of the corporation?

9 A Yes, sir. But that's true in all of these
10 that he had partners in. I looked to him.

11 Q That was going to be my next question.

12 A Yes.

13 Q Did you treat Whitewater in any way
14 differently than the other McDougal corporations that
15 you were handling at the time?

16 A No, sir. I mean, I can inject here, if
17 you want me to or not. It doesn't matter.

18 Q No. Go ahead with whatever you think is
19 responsive to my question.

20 A The one with Senator Fulbright, Rolling
21 Manor. You know, I met Senator Fulbright, he came by
22 my office once, just dropped by when he was in town.

136

1 But I never looked to him for anything.

2 In the partnership with Jim's cousin, I
3 never looked to the cousin, you know.

4 I always, in any entity, I looked to Jim
5 McDougal for the information I needed.

6 Q And was there a Smith-McDougal-Tucker
7 partnership as well during this time period?

8 A Yes. Um-hmm.

9 Q And who represented that entity in their
10 dealings with you? Was that Mr. McDougal as well?

11 A Mr. McDougal.

12 Q And so Whitewater was treated the same way
13 as the other entities that Mr. McDougal controlled?

14 A Yes. I looked to Mr. McDougal.

15 Q When Whitewater was incorporated, did
16 Mr. McDougal give you a reason for his decision to
17 form a corporation?

18 A Not that I recall.

19 Q I just show you a couple of documents.

20 MR. DINH: Now we are getting, I think,
21 far afield from where I was.

22 MR. COLE: No. I am going to show him.

1 You questioned him about the formation of the
2 corporation. I am going to show him the articles of
3 incorporation that he signed. You raised it.

4 MR. DINH: Well, I mean, I was going
5 through regarding, not the specifics of the articles
6 of incorporation but --

7 MR. COLE: Well, I am going to show him
8 the articles of incorporation.

9 MR. DINH: That's fine. But I just want
10 you to know that we reserve the right to --

11 THE WITNESS: Let's see what dates --

12 MR. DINH: -- stay with the Senate
13 Resolution 120.

14 BY MR. COLE: (Resuming)

15 Q This is a document that is numbered
16 DKRT 700327 through 329. It appears to be a copy of
17 the articles incorporation of Whitewater Development
18 Company, Inc.

19 Take a moment to look at it, but I wanted
20 to draw your attention to the last page and ask if
21 that is your signature.

22 A Yes, it is.

1 Q And what do you recall about the
2 preparation of these articles of incorporation?

3 A In what regard, sir? How do you mean the
4 preparation of them?

5 Q Why were they prepared? What were you
6 told? Who authorized you to sign them?

7 A I was a registered agent. This one is
8 showing me as the subincorporator here, is the way it
9 looks.

10 Q And that is what I wanted to bring your
11 attention because earlier during Mr. Dinh's
12 questioning, I think you indicated that the Clintons
13 may have signed some of the incorporation documents.

14 A I think I stated that I assumed they would
15 if it was incorporated.

16 Well, I don't understand this, and I don't
17 remember back then. They're showing here that each
18 of the incorporators as follows, and it only lists
19 me. Well, I know I wasn't the only incorporator. I
20 mean, I wasn't the only stockholder.

21 Q You were not the only stockholder?

22 A Yes. Yeah.

1 Q But it appears that you were the person
2 who signed the articles of incorporation?

3 A Yes. Okay. I will agree with that. Yes.

4 Q And do you recall whether you did that at
5 Mr. McDougal's direction?

6 A How do you mean "his direction," sir?

7 Q Do you recall him telling you, "Charles,
8 you signed the articles of incorporation. You be the
9 sole incorporator"?

10 A No, I don't recall that, because I just
11 now, you know -- I thought that there were -- I was not
12 the only one.

13 Q I show you another document that may help
14 you recall this. You may have seen this before.

15 This is a document that is numbered DKS
16 010933.

17 A Um-hmm.

18 Q It is a statement from the law firm of
19 Harrison & Brown, dated June 29, 1979, to Mr. James
20 McDougal, Little Rock, Arkansas.

21 A Um-hmm.

22 Q Do you recall having any discussions with

1 Mr. Brown about the incorporation of Whitewater?

2 A I remember having some discussions with
3 him, but I don't -- I remember Mr. Brown, you know,
4 once they brought the name up and I remember it, but
5 whether it was about Whitewater or what it was about,
6 I don't remember. I do not recall.

7 MR. DINH: At this point, I just want to
8 say that, Lance, do you want to go further into the
9 issue of incorporation beyond the specific areas I
10 covered, I think I will object.

11 You will recall that I had objected to
12 your insistence with the procedures that you go after
13 me. But I only had, as I said, it was an
14 acquiescence for the time being. But Senate
15 Resolution 120 is clear as to the procedures.

16 MR. COLE: You can note your objection for
17 the record. But you asked the witness a question.
18 He answered, and this document is relevant to the
19 answer he gave during your questioning.

20 MR. DINH: Then if you are going to go on,
21 I would insist that we follow the procedures set
22 forth in Senate Resolution 120 and let the majority

1 finish its questioning, and then you can do whatever
2 you want with your time, on your time, as set forth
3 under Senate Resolution 120.

4 MR. COLE: The procedures are very clear,
5 and these have been agreed to between myself and
6 Mr. Giuffre, the chief counsel. They are memorialized
7 in a memorandum which we can get put in the record if
8 you would like. But the majority has the opportunity
9 to question on a given subject matter, and then the
10 minority. And I plan to conduct my questioning on
11 the subject matter that you covered.

12 MR. DINH: And the question arises as to
13 what is the subject matter. I said that I would
14 reserve the right under Senate Resolution 120 not to
15 give you an opportunity to question the witness first
16 on subject matters that we did not cover. But that
17 Senate Resolution 120 is very clear on that mandate,
18 and I was not going to object in the interest of
19 efficiency. But this is getting beyond the interest
20 of efficiency, and into one-upmanship or strategy,
21 and when it goes into that area, I will intend to
22 invoke the procedures set forth by the Senate under

1 Senate Resolution 120.

2 MR. COLE: You can note your objection for
3 the record, but I have a right to conduct my
4 questioning in the way I feel is appropriate.

5 MR. DINH: Well, I think --

6 MR. COLE: You don't have the prerogative
7 to contravene me. We are following the procedures.

8 MR. DINH: I think your last sentence is
9 the most illuminating. We are both operating under
10 the strictures of Senate Resolution 120, and you have
11 no more authority to contravene those procedures than
12 anybody else does other than the Senate itself.

13 MR. COLE: Well, I haven't interrupted
14 your questioning or complained when you have covered
15 the same subject matter several times, and I think
16 that under our procedures and as a matter of
17 professional courtesy, you should let me conduct my
18 examination.

19 MR. DINH: As a matter of professional
20 courtesy, I have let you conduct your examination
21 beyond the point where I would have normally
22 objected. But I think that if we are going to get

1 into the substantive areas of incorporation, I would
2 insist on the procedures set forth under Senate
3 Resolution 120.

4 MR. COLE: Well, I have no idea what you
5 mean by substantive areas of incorporation. Those
6 are words that have no meaning.

7 You questioned Mr. James about the
8 incorporation of Whitewater. I am questioning
9 Mr. James about the incorporation of Whitewater. I
10 intend to continue questioning Mr. James about
11 the incorporation of Whitewater until I have no
12 further questions on that subject.

13 You can take as much time on the record as
14 you want to note your objections. But unless you
15 want to adjourn the deposition and send the witness
16 home, that is the way we are going to proceed at this
17 point.

18 So it is your call as to whether you want
19 to note your objection for the record or whether you
20 want to terminate the deposition.

21 MR. DINH: Are you telling me that you
22 will not follow the procedures set forth under Senate

1 Resolution 120?

2 MR. COLE: I am telling you that you don't
3 have any authority or particular reason to tell me
4 what is or is not within the subject matter of my
5 examination. I will conduct my examination in the
6 way that I choose.

7 MR. DINH: I am talking about the
8 procedures set forth under Senate Resolution 120 that
9 I quoted at the beginning of this deposition. I
10 outlined the subject matters that I was going to
11 question the witness on.

12 MR. COLE: So you are telling me that you
13 can question the witness about the incorporation of
14 Whitewater and ask whatever questions of the witness
15 that you wish, and yet when I begin to ask the
16 witness about the incorporation of Whitewater, you
17 can veto my questions because you think some are
18 going far afield? That is not a defensible position.

19 MR. DINH: No.

20 MR. COLE: I don't think you want to take
21 that position.

22 MR. DINH: You know, Lance, as well as

1 I do that that is not the position I am taking.

2 MR. COLE: Why don't you state for the
3 record what your position is, then? Because that is
4 what I understood you to say.

5 MR. DINH: Well, then you were not
6 listening. It is not a question or an issue of what
7 questions you ask but it is a question of when. And
8 when you proposed at the beginning of the deposition
9 that you get an opportunity to question the witness
10 with respect to the subject matters that I questioned
11 him, in the interest of efficiency so that his memory
12 would not have to be rejogged after sitting through
13 the entire majority's questioning.

14 I said, fine, as a matter of professional
15 courtesy, I would see to that, but I noted that
16 Senate Resolution 120 provided for a different
17 procedure. That is, the majority completes its
18 questioning on whatever subject, as long as it is
19 within the scope of Senate Resolution 120, and then
20 you, the minority, gets an opportunity to question
21 the witness on whatever subject as long as it is
22 within the scope of Senate Resolution 120.

1 That is the objection I am stating. It is
2 a matter of when rather than what you ask.

3 MR. COLE: Okay. I think you have noted
4 your objection for the record.

5 BY MR. COLE: (Resuming)

6 Q Now, Mr. James, when you were discussing
7 the incorporation of Whitewater Development
8 Corporation, did you have any discussions with Mr.
9 Brown, the attorney at Harrison & Brown that you
10 recall?

11 A I don't recall, sir. I remember now that
12 you all brought up Mr. Brown, I remember speaking to
13 him once, but I don't know if it was about this or
14 about something, one of the other corporations or
15 something.

16 I just remember Mr. Brown.

17 Q Other than perhaps Mr. Brown and
18 Mr. McDougal, do you remember having discussions with
19 anyone else about the incorporation of Whitewater
20 Development Corporation?

21 A I don't recall any.

22 Q And in your discussions with Mr. McDougal,

1 if you recall them, was there any discussion of what
2 the tax consequences would be of forming a
3 corporation?

4 MR. DINH: Again, now we are talking about
5 the tax consequences issue, and not the
6 incorporation issue.

7 If you go into this, I am going to insist
8 that Mr. Jiampietro start his questioning and he
9 can --

10 MR. COLE: He is welcome to start his
11 questioning when I conclude mine.

12 MR. DINH: No. No, no, no.

13 I said that you can, out of professional
14 courtesy, just as while I am questioning, you ask a
15 clarifying question, that is perfectly fine and in
16 the interest of efficiency, that is fine.

17 MR. COLE: Mr. Dinh --

18 MR. DINH: But otherwise, Mr. Jiampietro
19 will start his questioning and then you will get your
20 chance to ask whatever question you want, and you are
21 free to stay at the deposition or not.

22 MR. COLE: Mr. Dinh, this is my

1 examination. I intend to conclude it, and you can do
2 what I have done in the many depositions that I have
3 taken with you and other members of the majority
4 staff; that is, I patiently and courteously wait
5 until the other attorneys finish their examination
6 and then I ask my follow-up questions.

7 In the time that we have wasted
8 discussing this, I would have already completed my
9 examination and Mr. Jiampietro would be asking
10 questions now.

11 I intend to conclude my examination.

12 Could the reporter read the question back,
13 please?

14 MR. DINH: Here again, I am going to ask
15 the reporter to not go off the record.

16 MR. COLE: No, we are not going off the
17 record. Whatever needs to be discussed, we will
18 discuss on the record.

19 MR. DINH: That's right.

20 MR. COLE: It's not --

21 MR. DINH: Again, you know, you sitting
22 patiently through the majority's question is only the

1 agreement that the 96 members of this body agreed to
2 as set forth in Senate Resolution 120.

3 And I am sure the Senator appreciates your
4 patience, but I would insist on the procedures set
5 forth thereunder.

6 MR. COLE: And that is the procedures we
7 are following. And you agreed to them.

8 MR. DINH: No. I did not. I agreed to
9 them to the extent that you do not abuse the
10 professional courtesy that I have extended to you,
11 and I think that you have at this point abused that
12 courtesy.

13 MR. COLE: Well, as I said, you can state
14 your views for the record.

15 MR. DINH: And I have. And I can withdraw
16 my courtesy as I extend it as you acknowledge it was
17 a matter of professional courtesy.

18 MR. COLE: Well, be that as it may, I
19 would like for the witness to answer the question.

20 BY MR. COLE: (Resuming)

21 Q The question was: Mr. James, do you
22 recall when you discussed the incorporation of

150

1 Whitewater Development with Mr. McDougal, was there
2 any discussion of the tax consequences of forming a
3 corporation?

4 A Not that I recall. And there again, why
5 would there have been? I mean, Mr. McDougal had, you
6 know, various corporations.

7 I wouldn't have -- I don't recall.

8 I need to answer your question.

9 I don't recall him -- talking with him about
10 it.

11 Q And from your own perspective at the time
12 the corporation was formed, were you aware that
13 forming the corporation would have any tax
14 consequences?

15 A Well, here again, I --

16 Q For the individuals who were forming the
17 corporation?

18 A How do you mean "tax consequences"? I
19 mean, you know, I don't guess I am following your
20 line of questioning on this.

21
22

1 That's probably because I haven't
2 introduced documents to refresh his recollection as
3 yet.

4 MR. COLE: Well, Mr. Dinh, there is
5 nothing inappropriate about asking a witness
6 questions before showing them documents to see if
7 they have a recollection that is independent of the
8 documents.

9 MR. DINH: This is not about independent
10 from that. My one question regarding incorporation
11 was whether you recall Mrs. Clinton signing articles
12 of incorporation, and Mr. Cole has used that one
13 question -- and that question relates to the
14 relationship the Clintons had with the McDougals, and
15 what your recollection of that relationship was, and
16 Mr. Cole has used that in order to move the
17 questioning into more sensitive areas that I have not
18 had a chance to refresh his memory on, which probably
19 explains why.

20 MR. COLE: Well, I only have two or three
21 more questions so I think we can then move on.

22 MR. DINH: I would appreciate it.

1 BY MR. COLE: (Resuming)

2 Q So, Mr. James, if I am understanding you
3 correctly, at least as best you can recall today, you
4 did not attach any particular Federal Income Tax
5 significance to the forming of this corporation?

6 A Not as I recall, sir.

7 Q And in other corporations that Mr.
8 McDougal had formed for his real estate interest, had
9 there been any tax consequences arising out of the
10 formation of those corporations that you can recall?

11 A How do you mean, "tax consequences"? For
12 him individually?

13 Q Yes. Exactly.

14 For him, or the other incorporators.

15 Did it affect the Federal tax liability of
16 the individual incorporators when they formed a
17 corporation and put real estate assets into that
18 corporation?

19 A Yes, sir, it affects it, you know, because
20 the corporation pays the tax instead of the
21 individual.

22 Q The corporation pays taxes on the

1 activities of the corporation?

2 A That's correct.

3 Q But do the individuals incur any tax
4 liability apart from the activities of the
5 corporation just by virtue of putting the property in
6 a corporation?

7 A I don't know.

8 Q Let me show you a document that is
9 numbered DKSJ 014505.

10 MR. DINH: Now we are showing the witness
11 tax returns? Now, Lance, you cannot possibly argue
12 that this relates to my question on whether Mrs.
13 Clinton signed the articles of incorporation. You
14 cannot possibly argue that this is in good faith
15 relevant to that.

16 MR. COLE: Mr. Dinh, where you draw your
17 distinctions or your own -- is up to you, but if you
18 ask a witness about an event, then anything relating
19 or consequences arising out of that event is fair
20 questioning.

21 MR. DINH: And you know that, as you
22 acknowledged, my decision to let you follow me --

1 MR. COLE: No. Let us be clear on one
2 thing. You did not "let" or "permit" me to do
3 anything. In fact, it was only after I discussed
4 with Mr. Giuffra and confirmed with him procedures
5 that have been in place throughout the conduct of
6 these depositions, which apparently you were unaware
7 of, that we agreed that we would follow the same
8 procedures in this deposition that we have followed
9 in every other deposition.

10 MR. DINH: And I think those procedures
11 were agreed to in good faith, and that good faith is
12 not being exhibited here by your abuse of them. In
13 the absence of such good faith, I think that the
14 professional courtesy that the Majority has extended
15 will have to cease and we will insist on the
16 procedures set forth under Senate Resolution 120.

17 MR. COLE: As I said, you can note your
18 objection for the record.

19 MR. DINH: And I will go beyond that. You
20 said that you had one or two more questions, and I --

21 MR. COLE: No, I said I had one or two
22 more questions on the subject.

1 I am now going to go to some other
2 subject areas that you covered in your opening
3 examination, and I will continue through until I
4 have completed.

5 MR. DINH: That is fine, but I do not
6 consider the tax returns --

7 MR. COLE: So you are objecting to my
8 showing the witness a Whitewater tax return at this
9 time?

10 MR. DINH: And now discussing the
11 substantive issues of tax consequences.

12 MR. COLE: And the reason that you do not
13 think the witness should answer those questions at
14 this time is?

15 MR. DINH: Is that I think the Majority
16 should have an opportunity to precede the Minority in
17 the questioning just simply by the procedures set
18 forth in Senate Resolution 120.

19 I am going to ask for a quick break, if I
20 may.

21 (Whereupon, a brief recess was taken.)

22 MR. COLE: Back on the record.

1 BY MR. COLE: (Resuming)

2 Q Mr. James, I would like to go back to the
3 testimony that you gave a little while ago about the
4 telephone call that you received from Governor
5 Clinton. I believe you testified you were at home,
6 and it was in the evening or at night, and Governor
7 Clinton called.

8 I would like to try a little harder to
9 establish the time of that telephone call, if we
10 could.

11 First, is it your recollection that at the
12 time you received that call you were no longer
13 preparing tax returns for Mr. McDougal and Whitewater
14 Development?

15 A Here again, sir, if I could remember the
16 date I could tell you exactly.

17 (Pause.)

18 I don't remember if this was at the time,
19 you know, I told you that Mr. McDougal brought some
20 things over to my house one day and we caught
21 everything up, and it was all done, I don't recall if
22 this conversation with the Governor was before then

1 or after then.

2 I just, you know --

3 Q And you think that meeting with
4 Mr. McDougal took place in 1987?

5 A Well that's when those returns were dated,
6 sir.

7 Q But you do recall, I think you said, that
8 at the time the Governor called you did not have any
9 of the documentation that he was looking for?

10 A That's correct. I didn't have the
11 documentation to prepare the returns.

12 Q That was what I was getting at.

13 The documentation he was looking for would
14 be the documentation to prepare returns?

15 A That's correct.

16 Q And did he indicate whether there was a
17 return outstanding or delinquent at that time?

18 A All I recall about it was he was concerned
19 about getting them filed, and I guess at this point --
20 it would be an assumption on my part to assume that
21 they were delinquent, you know.

22 Q Did you --

158

1 A Not knowing what date that was.

2 Q Did you have any contact with Mr. McDougal
3 after the meeting that you just testified to when you
4 prepared the '87 returns?

5 A Not that I recall at all, sir, like I
6 said, because I knew he was in the hospital at the
7 same time my mother was up there when she passed
8 away, and I never knew he was up there.

9 Q And you don't recall whether or not this
10 telephone call from the Governor was before or after
11 your mother was hospitalized?

12 A That might give me a point to work from,
13 on thinking about it. My mother passed away in
14 December of '88.

15 Q You were talking with your aunt on the
16 telephone when he called?

17 A Um-hmmm. Yes.

18 Q Was there anything you were discussing
19 with your aunt that would help you in terms of
20 putting it in context of time?

21 A No. It would be pure speculation on my
22 part to put a date as to when it was, you know. I

1 could tell you what I think, but that wouldn't -- I
2 don't think that is what we are looking for.

3 MR. DINH: We are not asking for
4 speculation.

5 BY MR. COLE: (Resuming)

6 Q And how long after the discussion with the
7 Governor was it before you took your Whitewater files
8 to Mrs. Clinton at the Rose Law Firm?

9 A Are you talking about in number of weeks,
10 months, or --

11 Q Whatever the best estimate is you can give
12 us.

13 A As I recall it was awhile, because I -- and
14 I say "awhile," it wasn't the next day or anything
15 because I believe I did try to get in touch with
16 Mr. McDougal and wasn't able to. As best I recall,
17 he was...

18 Q Did you tell Governor Clinton that you
19 would try to get in touch with Mr. McDougal?

20 A As I recall, I did; yes, sir.

21 Q And then you in fact recall that you did
22 attempt to get in touch with him?

1 A As I recall, I did try to get in touch
2 with him but wasn't able to.

3 Q What did you do to try to reach him?
4 Where did you try to reach him?

5 A (Pause.)

6 Q And in particular I'm trying to focus on
7 whether he had already had his health problems at the
8 time, and whether he was living in Little Rock or
9 elsewhere, if that helps you with recalling the time
10 sequence.

11 A He had had his health problems because he
12 wasn't -- you know, he wasn't available.

13 Q Do you recall that there came a time when
14 Mr. McDougal was indicted by a Federal Grand Jury and
15 tried in Little Rock for bank fraud charges related
16 to Madison Guaranty Savings & Loan?

17 A I remember it happening, yes.

18 Q And do you recall whether the incident
19 with the telephone call from Governor Clinton and
20 your attempts to reach Mr. McDougal were before or
21 after Mr. McDougal was indicted?

22 A Sir, I don't remember.

1 Q Well at least do you remember whether or
2 not Governor Clinton was a Presidential candidate at
3 the time he placed the call?

4 A He was not.

5 Q So it was before that?

6 A It was before then, yes, sir.

7 Q And what about the time, then, when you
8 took the records to Mrs. Clinton at the Rose Law
9 Firm. Was Governor Clinton a Presidential candidate
10 at that time?

11 A I don't believe he was, no.

12 Q So you think that also --

13 A Yes.

14 Q -- would have been before then.

15 And the files that you took to Mrs.
16 Clinton at the Rose Law Firm, were those all of your
17 files relating to Whitewater Development Corporation?

18 A Yes.

19 Q What would those files have included?

20 A Just the working papers and tax returns.

21 Q What about check registers or records of
22 payment, or other --

1 A No.

2 Q But you did testify that at least at some
3 time period you did things for Whitewater Development
4 Corporation other than prepare their tax returns.

5 Am I correct in understanding that?

6 A Yes; like writing their checks, and when
7 the checks came in for the notes posting them to the
8 receivables. Yes, I did do that.

9 Q Would you have retained those documents in
10 the records for those transactions?

11 A Hmmmmm...

12 (Pause.)

13 I wouldn't have kept the receivables. I
14 would have just kept the working papers that I
15 prepared, you know, from the journals.

16 Q Would those have been among the documents
17 that you turned over to Mrs. Clinton?

18 A What's that?

19 Q The journals or receivable records? Or
20 would it have only --

21 A I don't believe I had those at that time,
22 sir.

1 Q So this was at a later time?

2 A If it's in the time period that I'm
3 thinking it was, and here I can't narrow that down.
4 Here again, like I say, if I could know the date, or
5 knew it before that Jim McDougal and I sat down and
6 did his last work, or it was after, because when we
7 did that I gave him everything except my working
8 papers.

9 Q I see. That was something I didn't know,
10 and I apologize if you testified to that previously
11 and I missed it.

12 When you met with Mr. McDougal in 1987 to
13 prepare the final returns, you turned over all the
14 Whitewater records that you had, other than your --

15 A Well, now, I didn't prepare "final
16 returns."

17 When I was no longer doing his work, and
18 not just for Whitewater but for any of his entities,
19 yes, all I retained after that was my working papers.

20 Q And by your "working papers," you are
21 referring to the documentation to support the tax
22 returns?

164

1 A Um-hmmm. Work sheets and tax returns and
2 things.

3 Q But you can't recall now, today, whether
4 what you turned over to Mrs. Clinton included only
5 the backup for the tax returns, or whether it
6 included other material, as well?

7 A No, sir, I don't remember.

8 Q And do you recall who it was who asked you
9 to provide the documents to Mrs. Clinton?

10 A I remember Governor Clinton calling, you
11 know, the house that night, and we discussed it. And
12 then after that, all I can tell you is I took the
13 records up there. I don't remember who requested
14 them, or --

15 Q And I'll tell you what is not clear to me,
16 and you may or may not be able to help me on this
17 point. It is not clear to me whether your taking the
18 documents to Mrs. Clinton is related to the call from
19 Governor Clinton, or whether they are two independent
20 events.

21 Do you understand what I am asking you?

22 A Well, I think so.

1 They are related in a way in that, you
2 know, I couldn't get anything from Mr. McDougal; so I
3 eventually wound up taking them up there. I guess,
4 you know, they're two separate incidents, but they
5 were related.

6 Q So let me ask the question a different
7 way, then.

8 Was your taking the files and records to
9 Mrs. Clinton at the Rose Law Firm in some way in
10 response to the earlier call you had received from
11 the Governor?

12 Or was there a separate request for you to
13 give documents to Mrs. Clinton?

14 That is what I am getting at here.

15 A Sir, I don't recall.

16 Q That's fine. If you can't remember, you
17 can't remember. It's been a long time ago. I'm just
18 trying to figure out the time sequence in which
19 things happened and the reasons that things happened.

20 Now you also testified that at some point
21 you visited Ms. Redden, Yoly Redden --

22 A I visited her office.

1 Q -- at her office.

2 A I didn't visit "her."

3 Q And do you recall at what point in time
4 that occurred?

5 Was it after you took the documents to
6 Mrs. Clinton at the Rose Law Firm?

7 A As I recall, it was after I took the
8 documents to...

9 Q Would you have had some reason to visit
10 Ms. Redden's office other than Whitewater-related
11 matters?

12 A No.

13 Q So, while you can't recall, as I believe
14 you testified, the reason you went to Ms. Redden's
15 office, you believe it had something to do with
16 Whitewater?

17 A Yes, sir; I believe it would. That would
18 have been the only reason I would have had to go.

19 Q Do you have any recollection as to how
20 long after you had taken the documents to Mrs.
21 Clinton at her office that it was that you visited
22 Ms. Redden's office?

1 Was it shortly thereafter? Or was it a
2 long period of time?

3 A I don't recall, sir. I really don't.

4 Q A final question on that point.

5 The visit to Ms. Redden's office, was it
6 before you were contacted by the Clinton Presidential
7 Campaign representatives?

8 A Yes.

9 Q So it was sometime before that?

10 A Oh, yes.

11 Yes.

12 Q A long time before that, or shortly before
13 that?

14 A Well, I am thinking it would of had to
15 have been a while before I was contacted regarding
16 the -- by the Campaign about that statement for
17 Whitewater when it came out in the press.

18 Q And at the time you went to Ms. Redden's
19 office, did you have any understanding that she was
20 preparing tax returns for Whitewater Development
21 Corporation?

22 A For some reason that's what I recall, sir,

1 but, you know, I can't say for sure; but it seems
2 like that I recall that. But that's just...

3 Q And do you recall doing anything to assist
4 her?

5 A I don't recall doing anything for her,
6 sir. Like I say, I don't even really remember
7 meeting the lady.

8 Q Did you take any records or documents when
9 you went to her office?

10 A That's what I can't remember, if I was
11 picking up something or taking something related to
12 it, you know, and I just don't remember. That's just
13 been so many years ago, and it's not part of my life
14 anymore.

15 (Laughter.)

16 MR. COLE: I'm sorry to tell you this, but
17 it is going to be a part of your life for the next
18 few days, anyway.

19 (Laughter.)

20 THE WITNESS: It has been for the last few
21 months.

22 MR. COLE: I can imagine.

1 THE WITNESS: You know, if a person
2 thought he was going to have to recall all this, he
3 would take better notes.

4 I remember going to her office. That's
5 all I can tell you.

6 BY MR. COLE: (Resuming)

7 Q So you remember going to her office, and
8 you think it had something to do with Whitewater, and
9 beyond that you don't have any memory?

10 A Yes, sir.

11 For my feeble mind, that is all I can
12 remember that I would have been going over there for.

13 Q Well, then, moving forward in time to
14 another area that Mr. Dinh asked you about, you
15 testified that Mr. Blair called you at home on a
16 Sunday morning?

17 A Yes, sir, I believe that's correct.

18 Q If you recall, at the time Mr. Blair
19 contacted you did he tell you that it was concerning
20 Whitewater Development Corporation?

21 A Yes, sir, I believe that's correct.

22 Q Had anyone contacted you about Whitewater

170

1 Development Corporation in connection with the
2 Presidential Campaign?

3 By that, I mean either a reporter, or some
4 representative of the Clinton's, or the Clinton
5 Campaign, before Mr. Blair contacted you on a Sunday
6 morning?

7 A If they did, I do not recall it.

8 Q So was that the first time that you came
9 to know that Whitewater was going to be a matter of
10 renewed attention, if that is a fair way to put it?

11 A As I recall, that's correct.

12 Q So this was a call that came out of
13 nowhere? You had no forewarning?

14 A I don't remember anything before that.

15 Q And do you remember at that time how long
16 it had been, roughly, in terms of years since you had
17 had any involvement with Whitewater in any of the
18 events that we've described in the last few minutes?

19 A Well here again it depends on when I
20 talked to Governor Clinton, whether it was before I
21 ended doing the work, or whether it was after.

22 So if I could give you that date, I could

1 give you a lot better information.

2 Q Okay. Let's focus then on the call from
3 Mr. Blair. Did you know Mr. Blair before that
4 telephone call?

5 A No, I didn't.

6 Q How did he introduce himself to you?

7 A I don't really remember. I just remember
8 him saying this was Jim Blair, you know.

9 And I'm sure he made some introduction to
10 himself to explain who he was and everything.

11 Q Did you know at that time that Mr. Blair
12 was somehow affiliated with the Clinton Presidential
13 Campaign?

14 Did you even know who Mr. Blair was?

15 A I knew who he was, because he was a
16 prominent figure in Arkansas, you know.

17 Q And you knew he had some connection with
18 the Clintons?

19 A That's correct.

20 Q That's what I am getting at.

21 So it did not strike you as out of the
22 ordinary that Mr. Blair would be calling you

1 regarding a matter concerning the Clintons?

2 A No, sir. Because I -- and here again, I
3 don't know how I knew it, but I knew he was, you
4 know, with -- associated with the Governor on his
5 campaign and everything and was friends with him.

6 Q I see. That's very helpful.

7 And did Mr. Blair then ask you to go to
8 the campaign headquarters in Little Rock?

9 A As I recall he did, sir, but...

10 Q And Mr. Dinh asked you if you saw Mr.
11 Blair. It wasn't clear to me.

12 Did you see Mr. Blair later that day when
13 you went to the Campaign Headquarters?

14 A You know, I don't remember if it was that
15 day or if it was -- you know, I don't think all of this
16 took place at the Campaign Headquarters the same day,
17 but it seems like I did see him up there one day.

18 The best I can remember, he was a tall
19 gray-headed man. That's the reason I think I
20 remember seeing him.

21 Q I think that is an accurate description of
22 Mr. Blair.

1 And did Mr. Blair tell you to go and look
2 for a particular person at the Campaign Headquarters?

3 A I don't recall, but I'm sure that's the
4 only way I would have known to talk to this Loretta
5 Lynch. I keep on saying Loretta Lynn.

6 Q And did Mr. Blair tell you at the time he
7 asked you to go to the Campaign Headquarters that you
8 were going to be asked to prepare a statement related
9 to Whitewater?

10 A I don't recall him asking me to prepare a
11 statement. Now, you know, at that time. He could
12 have, but I don't remember.

13 Q Did he indicate the campaign had questions
14 about Whitewater that they would like you to help
15 answer?

16 A Well, yes, sir. I mean, as I recall, they
17 wanted me to try to shed some light on the story that
18 had come out, like I said, in one of the newspapers.
19 I don't even remember which one.

20 Q And how did it come to pass then that you
21 were asked to sign a statement, or to prepare a
22 statement?

1 A I don't recall how I was asked to do it,
2 or why. You know, I know why. It was to clarify
3 some things. But as to how, and everything, I don't
4 remember, sir.

5 Q Did the preparation of the statement begin
6 on that Sunday? Do you remember that?

7 A (Pause.)

8 I don't remember, sir. Now here again,
9 I'm thinking I did this over more than one day, but
10 I'm not sure.

11 Q By "did this," you mean prepared the
12 statement?

13 A Well, started talking with them down there
14 about it.

15 Q Do you recall that you made more than one
16 trip to the Campaign Headquarters?

17 A It seems like I did, sir. Now I may -- you
18 know -- I think I did. I couldn't be sure, but I feel
19 like I did.

20 Q Mr. Dinh showed you two signed versions of
21 your statement. I want to show you one additional
22 version that is unsigned. It is Document No. DKS

1 016117 through 119.

2 I would just note for the record that
3 there is some handwriting at the top of page DKS
4 016117 that says "not approved as of 4:40; will be
5 approved in similar form by 10:30 as per Jim Blair."

6 I would ask you to take a moment to look
7 at that if you would, sir.

8 (Document shown to the witness.)

9 A (Pause.)

10 I don't recall this, sir.

11 Q Do you have any recollection as to whether
12 or not you have ever seen this statement?

13 A I don't recall.

14 Like I said, there were two or three that
15 I wouldn't sign.

16 Q And do you recall whether this might have
17 been one of them? Is there anything here that jogs
18 your memory?

19 A No, sir, there's nothing that jogs my
20 memory.

21 Q I wanted to ask you about one reference in
22 this document, and I understand that you didn't

1 prepare it and this information may or may not have
2 come from you, so I'm not suggesting that it did, but
3 I want to ask the question in any event.

4 If you look at the bottom of page 1, which
5 is DKS 016117, carrying over to the top of page 2,
6 it reads:

7 "According to what records are still
8 available, similar contributions made by
9 the McDougals were carried on the
10 corporate books as loans. The Clintons
11 were never repaid for their cash
12 contributions to the corporation, but the
13 McDougals loans were repaid by the
14 corporation from time to time."

15 Do you have any knowledge as to what that
16 refers to?

17 A No, sir, I really don't.

18 Like I say, I do not remember this. It
19 could have been one of the drafts and I wouldn't sign
20 it.

21 Q Were the drafts prepared with your input?

22 A Yes, they were.

1 Q So you would speak with someone either in
2 person --

3 A Um-hmmm.

4 Q -- on the telephone --

5 A Yes. I remember that one came back that
6 wasn't similar to what I would say, or anything, and
7 I wouldn't...

8 Q Do you recall telling anyone that the
9 McDougals loans were repaid by the corporation from
10 time to time?

11 A I don't recall saying that, sir.

12 Q And separate and apart from what this
13 statement says, do you have any recollection sitting
14 here today of payments by the corporation to the
15 McDougals to repay them for loans they had made to
16 the corporation?

17 A Well, yes, sir, because Mr. McDougal was
18 putting, you know, as I stated in these others, he
19 would put money in out of other accounts, and then
20 pay them back, and things like that.

21 So if you're referring to that as a
22 "loan" from him to the company and then being paid

1 back, yes.

2 Q Well, really, sir, I don't know what this
3 means and I'm asking you because you were there at
4 the time and I'm not, and I don't want to suggest it
5 means one thing or another. I am just trying to
6 understand --

7 A Yes, sir. Well, Mr. McDougal would put
8 money in various companies to, you know, if they ran
9 short, from one to the other, and they were, you
10 know, at times repaid back. So that could have been
11 true on that, you know.

12 Q And so let me try to draw a distinction
13 here to make sure that we're understanding one
14 another.

15 What I believe you're describing is a
16 situation where one corporation or business entity
17 controlled by Mr. McDougal might have a need for
18 funds, and he would transfer funds into that entity
19 from another entity he controlled, and then at a
20 later time repaid the first entity --

21 A Yes, sir. Or, personally. Either one.

22 Q And what I am trying to distinguish that

1 from is a situation where Mr. McDougal may have made
2 payments on behalf of the corporation -- and here we
3 are talking about Whitewater -- for example, made an
4 interest payment, and then later taken funds out of
5 Whitewater to repay him.

6 Do you have any recollection?

7 A All I can say is, that's possible; but I
8 don't recall any specific instances. And it could
9 have happened.

10 Q Well let me ask you a very general
11 question. Do you have any recollection of any
12 instances in which Mr. McDougal took funds out of
13 Whitewater other than to repay him or some other
14 entity he controlled for an advance they had made to
15 Whitewater?

16 And let me ask you if that question makes
17 sense. I am trying to make it as straightforward as
18 I can.

19 A You are asking if he took any money out of
20 it, basically.

21 Q Basically, yes.

22 (Laughter.)

1 BY MR. COLE: (Resuming)

2 Q I think that is a fair characterization.

3 A After these many years, I don't remember,
4 sir.

5 Q Do you remember whether, when Mr. McDougal
6 did what you described previously -- that is, moving
7 money from one corporation into another and then
8 moving it back -- if he had partners? Well, let's
9 focus on Whitewater and make it simple.

10 When he did that for Whitewater, would he
11 inform the Clintons of that?

12 A I can't answer that, because I don't know.

13 Q You can't say what Mr. McDougal --

14 A That's right. I'd be answering for him.

15 Q -- but you can tell me what you knew. Did
16 you have any reason to know -- did he ever say, I have
17 to tell the Clintons about this, or I need to run
18 this past the Clintons, or I told the Clintons that
19 we were doing this and they approved it? Anything to
20 that effect?

21 A Not that I recall, sir.

22 Q Did he ever mention the Clintons with

1 respect to Whitewater when he was taking action on
2 behalf of the corporation, or telling you to take
3 action on behalf of the corporation?

4 A I can't remember any specific incidents.
5 I remember him mentioning their names every now and
6 then, but I cannot remember a specific instance.

7 Q When you say "mentioning their names every
8 now and then," do you mean mentioning them as in I
9 know the Governor, or I saw the Governor, or
10 mentioning them that he had had a discussion with
11 them about Whitewater?

12 A (Pause.)

13 This has been so long ago. You know, I
14 can just get bits and pieces. I want to recall about
15 sometime he mentioned something about them when he
16 was doing something, but I can't remember what it was
17 about, or anything. And I don't remember whether it
18 was on a loan, or what. I just don't remember. But
19 I do remember him mentioning their name, but that's
20 about it.

21 Q Do you remember over what time period that
22 would have been?

1 A No, sir, I don't.

2 Q And is that the only instance, sitting
3 here today, you can recall when he mentioned the
4 Clintons' name with respect to Whitewater?

5 A Well, as far as a specific instance
6 regarding the corporation, that's the only specific
7 instance I can remember.

8 Q Let me ask you another general question,
9 then. Was it your impression that Mr. McDougal felt
10 that he needed the approval or authorization of the
11 Clintons to take action on behalf of Whitewater
12 Development Corporation?

13 A I don't know how to answer that, really.
14 It seems like I would be answering for Mr. McDougal
15 if I answered it.

16 Q I'm asking for your impression based on
17 your observations in your working with Mr. McDougal;
18 either your taking action on behalf of the
19 corporation at times, which I understand you were
20 doing with the authorization of Mr. McDougal, he was
21 your client?

22 A That's correct.

1 Q And what I am asking you is based on your
2 own observation, your own involvement at the time,
3 whether it was your impression that Mr. McDougal felt
4 he needed the approval or the authorization of the
5 Clintons before he could act for Whitewater?

6 A On day-to-day operations, I'm going to
7 say, no, sir, he didn't need their approval.

8 Q And you can't recall, sitting here today,
9 any time in which Mr. McDougal went to the Clintons
10 to get their approval before taking some action on
11 behalf of Whitewater in terms of day-to-day
12 operations?

13 A I can't recall a specific instance, no,
14 sir.

15 Q Do you know whether Mr. McDougal obtained
16 the approval or authorization of the Clintons before
17 forming the corporation?

18 A I don't know that. Here again, you know,
19 I would just be speculating. But I mean if they were
20 in it...

21 Q Well, there are a couple of transactions
22 that I would like to ask you about, but I am sure if

1 I do Mr. Dinh will object that I am going beyond what
2 he considers to be the scope of my follow-up
3 questioning, but I will do this very briefly and if
4 the answer is "no," then we can move on and hopefully
5 there won't be a problem.

6 There are just two transactions I would
7 like to ask if you recall whether the Clintons were
8 consulted before they took place.

9 Do you recall in 1986 Whitewater
10 Development Corporation put down a deposit to
11 purchase some property from International Paper
12 Corporation?

13 Do you have any recollection of that
14 event?

15 A No, sir, I don't.

16 Q Do you have any knowledge of that
17 whatsoever?

18 A No, sir.

19 I can expand a little further, I think, if
20 ya'll want.

21 Q Please.

22 A I believe that is one question they asked

1 me down there, that that land --

2 Q I'm sure they did.

3 (Laughter.)

4 A And that was after my time, really, as far
5 as I knew because I wasn't aware of it.

6 Q So to the best of your recollecting
7 sitting here today, that is not something you were
8 aware of at the time it took place?

9 A No, sir.

10 Q And you do not have any knowledge?

11 A That's what I stated to them, also.

12 Q And the one other instance that I wanted
13 to ask you about was an incident in which a model or
14 a modular home was built or placed on one of the lots
15 in Whitewater Development Corporation.

16 Do you have any recollection of that
17 event?

18 A Yes, sir. And that might throw me back to
19 the one that you just asked.

20 Q It refreshes your recollection?

21 A Yes.

22 Q I think it may be helpful --

1 A I believe that they did discuss that with
2 the Clintons on that.

3 Q And do you think that is the incident that
4 you had in mind when you told me you had a vague
5 recollection the Clintons were consulted on one
6 occasion?

7 A No, sir, it's not. There's another one
8 about, as I recall, something about one loan or
9 something, or doing something, and I can't remember.

10 Q And when you say "one loan," do you mean a
11 loan that had been made to the Clintons and the
12 McDougals? Or a loan that a purchase of Whitewater
13 property had taken out?

14 A No, sir. It was a loan for Whitewater.
15 It seems like -- and here I can't quote any specifics,
16 and I hope ya'll don't hold this against me, but
17 seems like they had to do something on a note, or
18 something.

19 But there was discussion -- now that you
20 mention the house, there was some discussion with
21 them about that, as I recall.

22 Q And what do you remember about that?

1 A I just remember that land sales were slow,
2 and they put it up there to try to show some
3 development up there and get some people seeing it,
4 you know.

5 MR. COLE: Well, I suspect the Majority
6 will want to get into this in more detail and will
7 show you documents, so out of deference to the
8 Majority I won't question you further about that.

9 THE WITNESS: If it will show some
10 deference, I hope it helps my memory.

11 MR. COLE: I would like to break for just
12 a second to speak with Mr. Potter, and then I may be
13 finished.

14 (Whereupon, a brief recess was taken.)

15 MR. COLE: Back on the record.

16 BY MR. COLE: (Resuming)

17 Q I just have one final area of questioning.

18 Mr. James, at the time that you had
19 discussions with Mr. Blair and Ms. Lynch, and perhaps
20 others during the Campaign, in connection with
21 preparation of a statement that you ultimately
22 released, did anyone try to force you to say

1 something that you weren't willing to say?

2 A No, sir, they didn't try to force me to
3 say anything that I was unwilling to say, but it
4 wasn't in the words that I wanted. It was more in,
5 excuse me, lawyer words, or whatever, which wasn't
6 me.

7 Q So you felt you needed to work to get
8 language that you were comfortable with --

9 A That's right.

10 Q -- to express yourself in words --

11 A That's right.

12 Q -- that you were comfortable with.

13 And were they willing and agreeable to
14 doing that and working with you?

15 A Yes, sir, because I finally got it the way
16 I felt comfortable with.

17 Q So you were allowed to revise the
18 statement until you were comfortable and satisfied
19 with it?

20 A That's correct.

21 Q And the final statement that was released
22 was a statement --

1 A Yes, sir.

2 Q -- that you were 100 percent satisfied
3 with?

4 A Um-hmmm.

5 Q And is that true of both the statement
6 that was released to the press and the one that was
7 used for another purpose?

8 A Yes, sir. And I can't remember what the
9 other one was for, really. But, yes, sir, I insisted
10 on having them, you know, the way that I felt
11 comfortable with.

12 Q And in each instance the final statement
13 was one --

14 A Yes; um-hmmm.

15 Q -- that you were 100 percent comfortable
16 with?

17 A And this might have been one that I wasn't
18 comfortable with. I don't know. But --

19 MR. DINH: Let the record reflect that the
20 "this" the witness was pointing to was DKS 16117.

21 THE WITNESS: Yes.

22 BY MR. COLE: (Resuming)

190

1 Q And you had earlier referred to meetings
2 with Ms. Lynch. The meetings you were referring to
3 would have been the discussions surrounding the
4 preparation of these statements?

5 A Yes; yes.

6 Q And were those all face-to-face meetings?
7 Or were some of those over the telephone, that you
8 recall?

9 A (Pause.)

10 I don't recall. You know, there could
11 have been some phone, but I don't recall.

12 Q And even though you knew who Mr. Blair was
13 at the time he called you before you provided any
14 information to the Campaign staff, you wanted an
15 authorization from one of the Clintons --

16 A Yes.

17 Q -- and that's why you insisted on --

18 A Yes.

19 Q -- authorization from Mrs. Clinton.

20 I think we covered that.

21 I don't have anything further at this
22 time.

1 MR. DINH: Just one or two questions.

2 FURTHER EXAMINATION

3 BY MR. DINH: (Resuming)

4 Q Relating to the phone call that President
5 Clinton put in to you while you were talking to your
6 Aunt relating to the Whitewater records --

7 A Yes.

8 Q -- and your subsequent visit to the Rose
9 Law Firm in order to drop off whatever files you had
10 of Whitewater Development --

11 A Yes.

12 Q I know Mr. Cole asked you about the period
13 of days, period of months, or within a year or two
14 years, something like that, I just wanted to make
15 sure I'm clear on the record. Was it in the same
16 year?

17 A Oh, yes. Yes. Yes. I don't know if it
18 was in the same month, but it was, you know, within a
19 few months.

20 Q It was within one or two months either
21 way?

22 A Yes.

1 Q And what about the visit with Yoly Redden?
2 Was that in the same approximate time period?

3 A Yes.

4 One thing I need to clarify. I didn't
5 "visit." I went to her office.

6 Q I'm sorry. You went to her office --

7 A It was all related to that, so I'm
8 assuming it was within the same time frame.

9 Q But it was related to the dropping off of
10 the files?

11 A Yes, of the files.

12 Q And just one other question, one or two
13 other questions regarding the statement you were
14 asked to sign during the 1992 Campaign.

15 You identified as one of the things,
16 probably the most significant thing you objected to,
17 and rightly so, was the "lawyer language" of the
18 statement. That's not the way you talk, and that's
19 not the kind of statement you sign.

20 A That's right.

21 Q And you expressed clearly to them, I would
22 not sign anything I am not comfortable with?

1 A That's right.

2 Q Were there other substantive issues with
3 respect to the statement, other than just the style
4 of writing?

5 A It was just the style of the writing, the
6 way they expressed it and the way I would express it.

7 Q Because I'm looking at one of the
8 statements that seems to differ in a lot of ways in
9 one of the statements DKS N 16117.

10 A Yes, sir, there's some differences but
11 they all get back to the same thing. If you'll
12 notice in the original one they're stated out, you
13 know.

14 Q Like in paragraph one.

15 A Yes.

16 Q Like this one made specific references to
17 The New York Times article, and the other one did
18 not.

19 A Yes.

20 Q Was that one of the issues you raised with
21 them?

22 A I can't answer that for sure 'yes' or

194

1 'no.'

2 Q And let me just refer you to the
3 handwritten note at the top of the document there,
4 DKS N 16117. Let me ask you to read that, "Not
5 approved as of 4:40, will be approved in similar form
6 by 10:30 a.m. per Jim Blair."

7 Do you understand or have any recollection
8 as to what they may refer to?

9 A No, sir.

10 Q Did Mr. Blair at some point call you up
11 and say, I want you to sign a statement by 10:30
12 tomorrow, if possible?

13 A Not that I recall at all, sir.

14 MR. DINH: I have nothing further on Mr.
15 Coles' questions.

16 FURTHER EXAMINATION

17 BY MR. COLE: (Resuming)

18 Q Just one additional follow-up question. I
19 just wanted to be as clear as I can, Mr. James,
20 because I think one of my questions may not have been
21 clear to you earlier when I was asking you whether
22 there were any "tax consequences" following from the

1 incorporation of Whitewater Development, and you
2 asked me what I meant by "tax consequences"?

3 A Um-hmmm.

4 Q What I meant by that would be when the
5 property was placed in the corporation -- that is, the
6 Whitewater land -- would that have had any capital
7 gains effect for the persons who owned the property?
8 Do you recall?

9 A I don't recall that it did. As best I
10 remember, it went, you know, for the same price from
11 one to the other and there was no gain or loss either
12 way. As I recall it.

13 Q That's how you recall it today?

14 A Yes.

15 Q Do you recall that being something you
16 thought about at the time, whether there would be any
17 capital gains effect placed on the corporation?

18 A No, sir.

19 Q Did Mr. McDougal ever raise that issue?

20 A Not that I recall.

21 Q And if I understand your prior testimony,
22 you didn't discuss this with anyone other than

1 Mr. McDougal at the time it was done?

2 A No, sir. I don't remember discussing it
3 with anyone.

4 Q And if you don't recall any capital gains
5 effect, what about something called "imputed
6 interest"?

7 Would there have been any imputed interest
8 effect for putting the land in the corporation?

9 A Here again, I don't remember all the
10 transactions back then, so I really can't answer your
11 question.

12 Q And all I'm getting at is what you can
13 recall today of what you understood at the time, or
14 were concerned with at the time.

15 A No, sir, I don't -- I don't recall. That's
16 the best I can answer you. I don't remember.

17 Q Do you recall whether when the land was
18 placed in the corporation the debt stayed with the
19 individuals? Do you remember that?

20 MR. JIAMPIETRO: We have got a whole line
21 of questioning on this.

22 MR. DINH: Yes.

1 MR. COLE: I just have two or three
2 questions --

3 MR. DINH: No, no.

4 MR. COLE: You are going to instruct the
5 witness not to answer the question?

6 MR. DINH: We are not going to replay this
7 again. You can answer this question, and then I will
8 ask Mr. Cole to respect the professional courtesy
9 that has been extended.

10 MR. JIAMPIETRO: This is one of the most
11 significant topics we are going to address in our
12 deposition --

13 MR. COLE: There is nothing written in the
14 resolution that says the Majority has the right to
15 ask the questions first.

16 BY MR. COLE: (Resuming)

17 Q Mr. James --

18 MR. DINH: I am sorry, but I will read
19 this over again. We have already read this into the
20 record, page 14, Senate Resolution 120:

21 "Questions shall be propounded first by
22 the Majority Staff of the Special Committee, and then

1 by Minority Staff."

2 MR. COLE: And as I recall sitting here
3 today, you went first for several hours, Mr. Dinh.

4 MR. DINH: And only out of professional
5 courtesy, as you acknowledged, and also out of
6 respect did we agree --

7 MR. COLE: No. I want to be clear about
8 one thing on the record because this has nothing to
9 do with professional courtesy.

10 There was very clear agreement between the
11 Majority and the Minority when we began that one
12 attorney for each side would speak for the record.
13 That is just a matter of proper conduct of
14 depositions.

15 What we are dealing with here is an
16 exception to that rule which the Minority agreed to
17 in order to accommodate the Majority where you are
18 going to have two attorneys question a single
19 witness.

20 So there is no professional courtesy
21 involved here except on the part of the Minority
22 accommodating the Majority's desire to deviate from

1 procedures that have been agreed to and have two
2 attorneys question the same witness.

3 Just so long as that is on the record.

4 MR. DINH: Just for the record, the
5 Minority has questioned witnesses using two
6 attorneys, so this is not an exception that is
7 extraordinary or requires any exertion on the part of
8 Minority.

9 Certainly, even in other depositions where
10 there have been two attorneys, it has always
11 proceeded with the Majority going first and then the
12 Minority. But out of interests of efficiency on this
13 one witness and for this particular deposition did we
14 agree that the Minority shall have an opportunity to
15 question the witness as to the matters that I covered
16 in my portion of the testimony.

17 I would ask that unless you have questions
18 that relate to other areas, that Mr. Jiampietro start
19 his questioning now.

20 MR. COLE: I do not have any further
21 questions, but I would like an answer to the question
22 that is pending, if the Reporter could read it back.

200

1 THE REPORTER: "Q Do you recall whether
2 when the land was placed in the corporation the debt
3 stayed with the individuals? Do you remember that?"

4 THE WITNESS: As I recall, the way it was
5 set up I believe they were still responsible for the
6 debt. That's the best of my recollection on it. And
7 I don't even remember how, you know, things were set
8 up or were put on the books or arranged back then at
9 all, but --

10 MR. DINH: Mr. Jiampietro will try to
11 refresh your recollection with whatever books or
12 records or filings we have at that time.

13 Is that all, Mr. Cole?

14 MR. COLE: I don't have anything further
15 at this time.

16 MR. DINH: I have nothing further on my
17 issues.

18 MR. COLE: So we are clear for the record,
19 from now on Mr. Jiampietro will be conducting the
20 deposition for the Majority and we won't have both of
21 you questioning the witness at the same time?

22 MR. DINH: I will not be questioning the

1 witness, but if he gives an answer that may be
2 relevant to the areas I questioned on, I may --

3 MR. COLE: Then you can pass a note to Mr.
4 Jiampietro or consult with him. But I will object if
5 you have the witness simultaneously bombarded by
6 questions from two attorneys. I would ask you to do
7 what we always do in these, which are pass notes or
8 whisper. One attorney for each side should be
9 conducting the deposition.

10 MR. DINH: I want Mr. James to be as
11 comfortable as possible.

12 THE WITNESS: I need someone to pass a
13 note to.

14 (Laughter.)

15 EXAMINATION

16 BY MR. JIAMPIETRO:

17 Q Mr. James, once again for the record my
18 name is Joe Jiampietro, and I am Majority Counsel to
19 the Senate Banking Committee.

20 I am going to be asking you some questions
21 that relate to specific documents. I understand that
22 this occurred 18 years ago, so I am not going to try

202

1 to have you recall things out of your memory. A lot
2 of the questions are going to be very specific to the
3 documents.

4 I will show you the documents and then ask
5 you some questions regarding those documents. I will
6 go over the documents and see if you can recall some
7 of the facts that relate to the documents.

8 I would like to just return to something
9 you mentioned earlier, which was your activities with
10 regard to Rolling Manor.

11 Can you just briefly refresh us on what
12 you did for Rolling Manor, and when you started
13 working for Rolling Manor?

14 MR. COLE: Before you answer that
15 question, Mr. James, can you help me as to how that
16 is within the scope of the Senate Resolution 120?

17 MR. JIAMPIETRO: I believe that this is an
18 issue that leads to the precedents which led to the
19 Whitewater investment. There were a number of
20 transactions occurring between Mr. McDougal and
21 Mr. Clinton with regard to Rolling Manor, and they
22 may have formed a precedent with regard to the

1 Whitewater investment.

2 I would just like to ask some questions
3 regarding those transactions.

4 MR. COLE: But is there anything in
5 Resolution 120 that says that we have authority to
6 investigate the Rolling Manor?

7 MR. JIAMPIETRO: I believe that this is an
8 activity which relates to the pre-incorporation
9 activities and may have an impact on whether or not,
10 on why the Clintons invested in Whitewater and the
11 precedents for having activities with Mr. McDougal.
12 It is all activities and investments relating to
13 Whitewater, and I am trying to discover whether or
14 not this was in any way related to Whitewater.

15 MR. COLE: Maybe you can just enlighten me
16 as to things that I don't know. When you say "these
17 are investments relating to Whitewater," how do these
18 investments relate to Whitewater?

19 MR. JIAMPIETRO: Well that is what I am
20 going to try to gather from the witness by asking him
21 some questions on this issue.

22 MR. COLE: So you don't know whether or

1 not these investments relate to Whitewater?

2 MR. JIAMPIETRO: That is one of the
3 questions I am going to ask the witness.

4 MR. DINH: And establish the prior course
5 or dealing --

6 MR. COLE: Excuse me. One attorney is
7 conducting the deposition.

8 MR. DINH: I am not bombarding the
9 witness, Lance. Off the record.

10 (Discussion off the record.)

11 MR. COLE: But my point is, practically
12 anything in the world might relate to Whitewater.
13 Anything that occurred prior to 1978 involving the
14 Clintons or the McDougals might relate to Whitewater,
15 but I think we have an obligation in this practice we
16 have followed up to this point in these depositions
17 that we need to articulate some basis for pursuing a
18 line of inquiry that brings it within Senate
19 Resolution 120, and that is what I am asking for.

20 MR. JIAMPIETRO: I believe I can easily
21 establish that. Whitewater was a real estate
22 investment between the Clintons and the McDougals.

1 We are looking at the activities which may have led
2 the McDougals and the Clintons to pursue the
3 investment.

4 One of the activities that we believe we
5 have found is a prior activity real estate investment
6 between Mr. McDougal and Mr. Clinton, and we are
7 trying to establish whether or not this was in any
8 way precedent to the Whitewater investment; whether
9 or not it was similar to the Whitewater investment;
10 whether or not it was in any way preceded and was in
11 any way related to the Whitewater investment.

12 MR. COLE: Well why don't we take it a
13 question at a time and see whether Mr. James'
14 responses bear out your theory?

15 MR. JIAMPIETRO: Can you please re-read
16 the question that I asked the witness?

17 THE REPORTER: "I would like to just
18 return to something you mentioned earlier, which was
19 your activities with regard to Rolling Manor.

20 Can you just briefly refresh us on what
21 you did for Rolling Manor, and when you started
22 working for Rolling Manor?"

1 MR. COLE: If I could make one request,
2 having heard the question read back, before he begins
3 to describe generally Rolling Manor and what he did
4 or didn't do, can we ask him whether he knows whether
5 or not the Clintons had any involvement in Rolling
6 Manor?

7 MR. JIAMPIETRO: I would prefer to go
8 about my course of questioning the way I was going to
9 do it, which was to show him the document and see if
10 it refreshes his memory.

11 THE WITNESS: Are you ready for me?
12 (Laughter.)

13 THE WITNESS: I don't recall the Clintons
14 having anything to do with Senator Fulbright and Jim
15 McDougal.

16 BY MR. JIAMPIETRO: (Resuming)

17 Q Sir, why don't we go back and just, if you
18 can, just let us know what you did for Rolling Manor
19 and when you started working --

20 MR. COLE: I am going to object to that.
21 If you have a document that you want to put in the
22 record that shows the Clintons had an investment in

1 Rolling Manor, that would change my position. But if
2 Mr. James' recollection is that the Clintons didn't
3 have any involvement in an investment between the
4 McDougals and Senator Fulbright, that would not be
5 within our Resolution and I would instruct him not to
6 answer questions regarding that investment.

7 BY MR. JIAMPIETRO: (Resuming)

8 Q I would like you to refer to document
9 Bates No. LP 01547.

10 (Document shown to the witness.)

11 This is a Purchasers Agreement entered
12 into between Rolling Manor and William Clinton for
13 Tract No. 74 of Sal-T-Ohi Estates.

14 MR. COLE: I would like to note something
15 for the record here. In my view, Mr. Jiampietro, you
16 have mischaracterized in your questions to Mr. James
17 what I understand to be the Clintons involvement in
18 this, because the Clintons being involved in the
19 Rolling Manor Development in the same way they were
20 in the Whitewater Development would imply that they
21 were one of the developers and owned the development.

22 What this document indicates is consistent

1 with my understanding that Mr. Clinton may have
2 purchased a piece of property in Rolling Manor, which
3 I think has been widely reported before. That is a
4 very different thing than having the relationship he
5 had with Mr. McDougal in the Whitewater Development.

6 So if your line of questioning is somehow
7 to establish that Mr. McDougal was doing the same
8 thing in Whitewater that he was doing in Rolling
9 Manor, I don't think there is any evidence in our
10 record to indicate that Mr. Clinton had the same
11 involvement in Rolling Manor that he had in
12 Whitewater.

13 MR. JIAMPIETRO: Well, I believe that
14 these documents in our line of questioning will go to
15 whether or not there was a prior course of dealings
16 and a relationship or a motivation for the later
17 investment in Whitewater.

18 It doesn't necessarily show that there is
19 any prior relationship, but it may show that there
20 was a prior course of dealing and we would like to
21 ask some questions about this to see what in fact
22 happened on this transaction and how it was

1 structured.

2 MR. COLE: Well I won't object to
3 questions about Mr. Clinton's involvement because I
4 think that that is a reasonable position for you to
5 take.

6 I think a detailed examination of the
7 Rolling Manor Development and the agreements between,
8 or arrangements between Mr. McDougal and Senator
9 Fulbright would clearly be outside the scope of our
10 Resolution.

11 So that is where I intend to draw the line
12 and would instruct the witness accordingly.

13 MR. JIAMPIETRO: I agree.

14 MR. COLE: So, please proceed.

15 MR. DINH: Off the record.

16 (Discussion off the record.)

17 MR. JIAMPIETRO: On the record.

18 BY MR. JIAMPIETRO: (Resuming)

19 Q Once again returning to Document Bates No.
20 LP 01547, this is a copy of a Purchasers Agreement
21 between William Clinton and Rolling Manor, Inc., for
22 Tract No. 74, where the buyer agrees to pay the

210

1 seller \$11,400 for a piece of property.

2 There is an installment note listed on the
3 bottom of the paper for \$11,000 dated January 25th,
4 1977. The document is signed by Susan Henley
5 McDougal and James B. McDougal.

6 Have you ever seen this document before,
7 Mr. James?

8 A Well, here again that's kind of a leading
9 question because I probably have. I don't recall it,
10 I mean, because I was doing the work within this time
11 frame, but I don't recall Mr. Clinton buying a lot up
12 there. But it appears that he did.

13 Q Let me ask you another question.

14 In your work for Rolling Manor, you would
15 receive checks from people who were paying Rolling
16 Manor for property? Or you would record the checks?

17 A Well, yes, sir. Now when I first started
18 going it, I wasn't doing that. But later on -- and I
19 can't remember what year, month, or anything like
20 that, I did start doing that for them.

21 But initially I did not.

22 Q At the time of this agreement which is

1 dated January 25th, 1977, how long had you been
2 working for Rolling Manor, approximately?

3 A It's like I said. I went in business in
4 January of '76, and as I recall I didn't start doing
5 work for McDougal until spring or summer of that
6 year.

7 Q You would have been working for Rolling
8 Manor, or doing work related to that, at that time?

9 A Yes. But whether I was collecting checks
10 on their installment notes, I can't say that I was.
11 I just don't remember.

12 Q Let me show you another document Bates
13 Numbered LP 01544, which is on Rolling Manor, Inc.,
14 letterhead, correspondence from James B. McDougal to
15 Bill Clinton dated February 4th, 1977.

16 It states:

17 "Dear Bill:

18 "Between now and April 1st, please mail us
19 your downpayment of \$400, if you have it
20 to spare. Beginning in April, mail a
21 check payable to Rolling Manor, Inc, in
22 the amount of \$155.51 to our bank in one

1 of the enclosed envelopes.

2 Sincerely,

3 James B. McDougal"

4 And it is signed "Jim."

5 Do you recall ever seeing any checks sent
6 to Rolling Manor by Bill Clinton?

7 A I don't recall any; no, sir. I mean, you
8 know, that's like asking --

9 MR. COLE: We're up to 20 years, now.
10 I've been waiting to when we could say 20 years.

11 THE WITNESS: That's asking for one check
12 in all of them. So, no, sir, I can't say for sure
13 that I ever saw it.

14 And if I did, I'm sure you could go back
15 to a bank record and it was deposited, you know. But
16 we don't have that information.

17 (Document shown to the witness.)

18 BY MR. JIAMPIETRO: (Resuming)

19 Q I would like to show you another document
20 Bates Numbered LP 01601, LP 01610, LP 00672. This is
21 Schedule D from the Clintons 1978 personal income tax
22 returns.

1 I would like to specifically refer you to
2 LP 00672.

3 A Okay.

4 Q Which is a schedule of installment gain on
5 sale attached to the Clintons 1978 personal income
6 tax return.

7 A Okay.

8 Q It shows that a sale of 15 acres of
9 unimproved land occurred on July 23rd, 1978. The
10 land had been purchased on January 25th, 1977.

11 The gross sale price for the sale was
12 \$14,985. Profit on the sale was \$6,435.

13 Do you recall in any way whether or not
14 Bill Clinton transacted with Rolling Manor to sell a
15 lot on July 23rd, 1978?

16 A No, sir, I wouldn't know. I couldn't
17 recall that if my life depended on it today, and it
18 might.

19 Q Just to sum up, you are unfamiliar with
20 whether or not you received any checks from Governor
21 Clinton in performing your accounting duties for
22 Rolling Manor?

1 A That's correct, sir. I do not remember,
2 at all. And here again you're saying "if I received
3 any checks." At that time, I might not of even been
4 receiving them. I might of just -- they might of been
5 deposited somewhere else and I was just working off
6 of check stubs and bank deposits at that time.

7 Because, as I stated, there was just a
8 period in there that I was taking care of posting
9 receivables and things for them.

10 MR. COLE: Could I just note for the
11 record -- I am sure you noted this, Mr. Jiampietro,
12 that the letter from Mr. McDougal to Mr. Clinton
13 indicated the check should be sent to the bank in
14 apparently enclosed envelopes?

15 THE WITNESS: Yes.

16 MR. COLE: "Beginning in April, mail a
17 check payable to Rolling Manor," to our bank. So he
18 would not have seen any of those checks, presumably,
19 if they were mailed to the bank.

20 Is that correct?

21 THE WITNESS: Yes, sir. There for awhile
22 all I was getting was a carbon copy of a bank where

1 they recorded something.

2 BY MR. JIAMPIETRO: (Resuming)

3 Q Well let me ask you a follow-up question.
4 In preparing the books for Rolling Manor, you never
5 saw any entries or receivables for William Clinton in
6 the books for Rolling Manor?

7 A You're asking me if I -- here again, I can't
8 say that I did or didn't because I don't remember,
9 sir. But I wouldn't want to put a specific answer on
10 that because that has been too long ago. I can't
11 remember.

12 Q I would like to ask you about any
13 activities performed by yourself on behalf of James
14 McDougal or Whitewater or William or Hillary Clinton
15 in 1978 prior to the incorporation of Whitewater
16 Development Corporation relating to the purchase of
17 approximately 220 acres by the Clintons and McDougals
18 from 101 River, Inc.

19 MR. COLE: Is that 101 River Development
20 Corporation, Inc.?

21 BY MR. JIAMPIETRO: (Resuming)

22 Q 101 River Development Corporation, Inc.

1 Were you involved in any way in arranging
2 the financing of this transaction?

3 A No, sir.

4 Q Do you have any knowledge of the financial
5 arrangements, including the choice of banks, the
6 negotiation, the terms of the agreement?

7 A I had nothing to do with that, sir.

8 Q Let's move on to the decision to
9 incorporate.

10 I would like to show you a document Bates
11 Stamped DKRT 900619 through 900622. These are the
12 Articles of Incorporation of Whitewater Development
13 Company.

14 (Handing document to the witness.)

15 A Yes, sir.

16 Q They show the Seal of the State of
17 Arkansas.

18 Note that the Articles were filed on June
19 18th, 1979.

20 As we discussed earlier, these Articles of
21 Incorporation on page DKRT 900621 lists you as the
22 incorporator.

1 Just below that, paragraph 8 states:

2 "The number of directors constituting the
3 initial Board of Directors shall be one.

4 At the meeting of the Shareholders next
5 following the time when the number of
6 Shareholders of record shall be more than
7 one, additional directors shall be elected
8 so that the total number of directors
9 shall be equal to the number of
10 shareholders of record, but not to exceed
11 five unless the corporate by-laws
12 specifically so provide."

13 Do you recall who the directors of the
14 Whitewater Corporation were upon incorporation? Or
15 at any time after incorporation?

16 A No, sir.

17 I'm still at a loss as to why I'm the only
18 one on here, because that's not the way it was set
19 up.

20 Q Okay. I'd like to turn to the
21 shareholders of Whitewater Development Incorporated --
22 Whitewater Development Corporation.

1 I'd like to refer you to DKRT 900845,
2 which is the Corporation Franchise Tax Report for
3 January 1st, 1980, Whitewater Development Company,
4 Inc.

5 (Document shown to the witness.)

6 A Um-hmmm.

7 Q Did you prepare this document?

8 A Well, here again I'm assuming I did
9 because I did the corporate franchise tax reports for
10 each of their companies.

11 MR. COLE: "Their" being the McDougals?

12 THE WITNESS: Yes, for each of the
13 McDougals' companies.

14 BY MR. JIAMPIETRO: (Resuming)

15 Q And you would have started doing that
16 when?

17 A When I started doing their work for them;
18 you know, doing their tax returns.

19 Q That would have been upon incorporation in
20 June of '79?

21 A Right.

22 Q I want to point out a couple of points on

1 this to see if it refreshes your memory as to the
2 officers and shares of the corporation.

3 The line 4(d) requests the names and
4 addresses of agents and officers.

5 A Um-hmmm.

6 Q It lists Charles E. James as president;
7 Susan McDougal as vice president; and Susan McDougal
8 as secretary.

9 A Um-hmmm.

10 Q Were those the officers of Whitewater at
11 this time?

12 A Yes, sir; as I recall it, it was.

13 Q These documents, if you would refer to
14 DKRT 900841, which is the Corporate Franchise Tax
15 Report for 1981 for Whitewater Development Company,
16 Inc., DKRT 700608, which is the Tax Report for
17 January 1982; DKRT 700606, Corporation Franchise Tax
18 Report for 1983, as of January 1st, 1983; DKRT
19 700605, which is the Corporation Franchise Tax Report
20 as of January 1st, 1984; and DKRT 600105, the
21 Corporation Franchise Tax Report as of January 1st,
22 1985; DKRT 101061, which is the Corporation Franchise

220

1 Tax Report as of January 1st, 1986.

2 Each of these documents lists as the
3 president Charles James, as the president?

4 A Yes, sir.

5 Q Were you president for that period of
6 time?

7 A (Pause.)

8 Here again, I would have to assume I was.
9 I put my name down here. I know I didn't own the
10 stock in it, but I could have been president. That
11 was just a title only, really, but...

12 Q I'd like to refer you to line 5 of DKRT
13 900845, "Total Authorized Capital Stock." Actually,
14 I believe the figures are clearer on DKRT 900841,
15 line 9.

16 A Okay.

17 Q It shows the total number of shares
18 outstanding as 300.

19 A Okay.

20 Q Look at line C.

21 A Yes. I see where you're talking about.

22 Q Under, actually, Item 10, Issued and

1 outstanding capital stock.

2 A Um-hmmm.

3 Q There is a notation "NPV equals \$25."

4 Could you explain that notation? And also
5 there's a notation that the total value of the stock
6 is \$7500.

7 Does this refresh your memory as to how
8 many shares of stock were outstanding or issued by
9 Whitewater?

10 A Well there were 300 shares issued. And
11 for this report, it is just showing no part value to
12 figure the corporate franchise tax. They figure at
13 \$25.

14 Q Would that have been the amount paid by
15 the shareholders for the stock?

16 A As I recall, it was not.

17 MR. COLE: I'm sorry, Mr. James, just to
18 be sure I am following you, where it says "NPV equals
19 \$25," your recollection is that in the case of a
20 corporation where the stock does not have a stated
21 par value that the franchise tax was \$25?

22 THE WITNESS: It figures at \$25 a share.

1 MR. COLE: So \$25 a share times 300 equals
2 \$7500?

3 THE WITNESS: Yes.

4 MR. COLE: And you prepared this form on
5 that basis?

6 THE WITNESS: Yes, sir.

7 MR. COLE: Thank you.

8 MR. COLE: Can we go off the record a
9 minute?

10 MR. JIAMPIETRO: Sure.

11 (Discussion off the record.)

12 MR. JIAMPIETRO: On the record.

13 BY MR. JIAMPIETRO: (Resuming)

14 Q I would like to give you a copy of DKRT
15 900111. And also DKRT 900112.

16 (Documents shown to the witness.)

17 This is a copy of a Share Certificate. It
18 states: Certificate No. 1 for 150 shares issued to
19 Hillary Rodham dated June 18th, 1979.

20 DKRT 900112 is a copy of the share, I
21 believe.

22 Is that a correct description of this

1 document? How would you describe this document?

2 A Yes, sir. I would call that a stock
3 certificate.

4 Q A Stock Certificate for Whitewater
5 Development Company, Inc.?

6 A That's what it states, yes.

7 Q It certifies that Hillary Rodham is the
8 owner of 150 shares of the capital stock, dated the
9 18th day of June 1979.

10 A Um-hmmm.

11 Q On this document, the president, on the
12 line for the president's signature, James McDougal
13 has signed the certificate, and the secretary, Susan
14 McDougal, has signed the certificate.

15 I would like to ask you a number of
16 questions relating to these documents.

17 Does this refresh your memory as to how
18 many shares were issued to Hillary Clinton?

19 A Well --

20 Q Hillary Rodham --

21 A -- yeah, that would really refresh at 150,
22 but the total amount that refreshed me was the

1 corporate franchise tax, 300.

2 Q Did you ever see these documents before?

3 A I had seen mine at one time.

4 Q Do you remember, after seeing this
5 document, what your document stated in terms of your
6 total shares issued to you?

7 A No, sir.

8 I really don't. It seems like --

9 Q Having seen the certificate and the
10 Corporate Franchise Tax Returns, would you say that
11 it is clear that Hillary Rodham owned 150 shares of
12 the 300 shares outstanding --

13 A Yes, sir.

14 Q -- to Whitewater Development Corporation?

15 A (Nods in the affirmative.)

16 Q It doesn't refresh your memory as to how
17 many shares you may have owned as of the date of
18 incorporation or thereafter, or how many shares may
19 have been owned by the McDougals on the date of
20 incorporation or thereafter?

21 A Umm...

22 (Pause.)

1 Q If it doesn't, I have a document which I
2 think may.

3 A I hope it will.

4 (Document shown to the witness.)

5 Q I would like to refer you to Document DKRT
6 900618. I am going to refer to this document now,
7 and I am also going to refer to it later in asking
8 you some questions.

9 A All right.

10 Q Initially I just want to ask you about the
11 listing of shares.

12 This document is Form 2553, An Election By
13 A Small Business Corporation As To Taxable Status
14 Under Subchapter S of the Internal Revenue Code.

15 On the line, "Name of the Corporation" is
16 "Whitewater Development Company, Inc."

17 Section (e) asks for the name of each
18 shareholder.

19 (f) requires shareholder's statement of
20 consent.

21 Section (g) lists the stock owned and the
22 dates acquired.

1 The names and addresses of each
2 shareholder are listed as Hillary Rodham. The
3 signature of Hillary Rodham appears next to that
4 listing as owning 500 shares acquired on June 18th,
5 1979.

6 Line 2 lists Susan McDougal. The
7 signature of Susan McDougal appears next to her name.
8 Number of shares owned, 250. Date acquired, June
9 18th, 1979.

10 The third shareholder is listed as Charles
11 James.

12 Is that your signature next to the
13 listing?

14 A Yes, it is.

15 Q Number of shares owned, 250. Date
16 acquired 6/18/79.

17 Did you prepare this document?

18 MR. COLE: If I could, Mr. Jiampietro, I
19 would just like to show the witness another copy that
20 appears to be an identical copy of the same document,
21 but it doesn't have the large "Confidential" stamp
22 that obscures the document. It might make it easier

1 for him to read it, if you're going to ask --
2 particularly since his signature is covered on the
3 copy you gave him. The one I have is numbered DKS
4 014516. It appears to be a much clearer and easier-
5 to-read copy.

6 (Document shown to the witness.)

7 THE WITNESS: Here again, I assume I
8 prepared this; yes, sir. I, you know, that's my
9 signature on it. Let me put it that way. I don't
10 deny that.

11 BY MR. JIAMPIETRO: (Resuming)

12 Q Could you -- at this point in time, I would
13 just like to ask you specifically regarding the stock
14 ownership listed.

15 Referring back to the stock certificate
16 you just reviewed in the Corporate Franchise Tax
17 Reports, and now reviewing this document, does this
18 correctly list the number of shares issued?

19 A No, sir.

20 There is some discrepancy here, and I
21 can't answer it. Now whether this was supposed to
22 have been 50 percent, and then 25 and 25, is the only

1 way I can answer that. And that would be speculation
2 on my part.

3 But that's the only way I can answer for
4 the difference because the Corporate Franchise Tax
5 Reports show 300 shares.

6 Q Does this document accurately reflect the
7 percentage of share ownership as of the date of the
8 document?

9 A Well I'm assuming it does, sir, because
10 with the 300 shares it would reflect that Hillary
11 Rodham Clinton -- I didn't recall that I had 25 percent
12 when it was done, but I must have. I don't deny
13 that; I just didn't remember it.

14 Q I'm just trying to show you documents to
15 establish some of this for the record.

16 A Yes. Um-hmmm.

17 Q I would like to show you a document DKRT
18 900617. It is a Restriction on Transfer of Stock
19 dated October 1st, 1986. The document is mostly
20 illegible, but it states -- it lists James B. McDougal
21 and Susan H. McDougal -- and states, 150.

22 (Document shown to the witness.)

1 Do you recall this document?

2 A No, sir, I do not.

3 Q At the top of the page, the document

4 states, "The security represented by this certificate
5 has been offered and issued pursuant to an exemption
6 from registration under the Securities Act of 1933
7 and the Arkansas Securities Act in reliance upon the
8 representation of the holder hereof that the security
9 is acquired for investment purposes. Accordingly,
10 this stock may not be resold, pledged, hypothecated,
11 or otherwise transferred or conveyed in the absence
12 of registration pursuant to the aforesaid securities
13 laws or unless an opinion of counsel satisfactory to
14 the issuer is first obtained that such is not then
15 necessary."

16 A You'd have to tell me what that means.

17 (Laughter.)

18 Q I'm just trying to establish --

19 MR. COLE: I could, but I won't.

20 BY MR. JIAMPIETRO: (Resuming)

21 Q -- that this is a listing of stock, and
22 that it lists 150 shares --

230

1 MR. COLE: I didn't mean to be flip when I
2 said I could but I won't, Mr. James. What this means
3 from a legal perspective simply is that this is not a
4 registered security, and it is a restricted security
5 and it can't be sold freely on the open market in the
6 same way that stock that has been registered with the
7 Securities and Exchange Commission can be traded.

8 BY MR. JIAMPIETRO: (Resuming)

9 Q You're not familiar with this document,
10 and you cannot state whether or not it is related to
11 Whitewater?

12 A You know -- well, there's nothing legible on
13 it --

14 Q Other than the names of James and Susan
15 McDougal --

16 A That's right.

17 Q -- and the 150.

18 A So, no, sir, I can't say.

19 Q It would suggest, though, that as of
20 October 1st, 1986, James and Susan McDougal may have
21 owned 150 shares of Whitewater?

22 MR. COLE: I would take strong exception

1 to that. I mean, that may well be the case, but I
2 think the witness said it could be any corporation.
3 There is nothing here to indicate it is Whitewater.

4 THE WITNESS: That is what I was going to
5 say. It doesn't, to me, indicate that.

6 BY MR. JIAMPIETRO: (Resuming)

7 Q That's fine. We'll go on.

8 (Discussion off the record.)

9 BY MR. JIAMPIETRO: (Resuming)

10 Q I would like to refer you to Document No.

11 RIC 003635 and RIC 003636.

12 (Document shown to the witness.)

13 A Okay.

14 Q Which is a letter dated April 15th, 1991,
15 addressed to Chris and Rosalee Wade, Charles James,
16 Jim McDougal, and Susan McDougal, regarding the
17 Whitewater Development Company, Inc.

18 I would like to refer you at this time to
19 the top of the second page, and I will read the first
20 sentence:

21 "Based on the records available to me,
22 Susan, Charles, and I are the only

1 registered shareholders of the company."

2 The letter is not signed by -- the letter lists Hillary
3 Rodham Clinton as the sender, but it is not signed.

4 MR. COLE: Since Mr. James is one of the
5 persons to whom the letter is addressed, do you have
6 any reason to believe the letter actually was sent to
7 him, just to help him in evaluating this?

8 MR. JIAMPIETRO: I have no knowledge.

9 BY MR. JIAMPIETRO: (Resuming)

10 Q In fact, I would like to ask you whether
11 or not you received this document.

12 A This is the first I've ever seen it.

13 Q On April 15th, 1991, which is a relatively
14 recent date in this matter --

15 A Yes.

16 Q -- did you own any shares of stock of
17 Whitewater Development Company, Inc.?

18 A No, sir.

19 And just for the record, the best I
20 remember, when McDougal moved to Kingston I no longer
21 owned any shares around that time, or in the early
22 part of Whitewater.

1 MR. COLE: And I believe that you
 2 testified earlier that he paid you when you gave the
 3 shares back to him --
 4 THE WITNESS: That's true.
 5 MR. COLE: -- that he gave you your money
 6 back?
 7 THE WITNESS: That's correct.
 8 MR. COLE: And you think that occurred
 9 about the time he moved to Kingston?
 10 THE WITNESS: It was around that time
 11 because he moved to North Arkansas up there. Now
 12 that's the best of my recollection because it was
 13 somewhere in that time frame.
 14 MR. COLE: Well we can establish the date
 15 from other sources that Mr. McDougal went to
 16 Kingston, but what I'm interested in is your
 17 recollection is that it was at that time that you
 18 ceased to be a shareholder in Whitewater Development
 19 Company?
 20 THE WITNESS: That's my recollection; yes,
 21 sir.
 22 BY MR. JIAMPIETRO: (Resuming)

1 Q Were you involved in the decisions
 2 establishing the by-laws, directors, and officers of
 3 Whitewater?
 4 A Not the by-laws, no, sir.
 5 Q Were any minutes maintained of initial
 6 meetings or subsequent corporate meetings?
 7 Was a -- or was a corporate minute book --
 8 MR. DINH: Let him answer the previous
 9 question, first.
 10 THE WITNESS: Well the first question was,
 11 was I involved in it?
 12 BY MR. JIAMPIETRO: (Resuming)
 13 Q Let me repeat the question.
 14 Were any minutes maintained of initial
 15 meetings or subsequent corporate meetings?
 16 A If they were, they were by the attorney,
 17 not by me. And I, you know...
 18 (Pause.)
 19 MR. COLE: Did Mr. McDougal maintain
 20 minutes for any of the corporations that you
 21 administered for him?
 22 THE WITNESS: Here again, if he did that

1 would have been between him and his attorney. I
2 wouldn't have had any...

3 MR. COLE: And you understand the
4 distinction between corporate minutes -- that is,
5 minutes of a meeting of the board of directors and
6 the articles of incorporation, or other --

7 THE WITNESS: Right. Yes.

8 MR. COLE: Yes?

9 THE WITNESS: Yes.

10 BY MR. JIAMPIETRO: (Resuming)

11 Q Who was authorized to sign checks on
12 behalf of Whitewater?

13 A Well, I was. Jim and Susan's the only
14 three I know of.

15 Q Let me show you a document Bates Numbered
16 DKRT --

17 A That depends on what time period you're
18 talking about, also.

19 Q Okay.

20 During the time when you were employed by
21 Whitewater, who was authorized to sign checks on
22 behalf of --

1 A Well, here again, I was not "employed" as
2 an employee.

3 Q During the time that you performed
4 accounting services --

5 A Yeah. Okay.

6 Q -- who was authorized to sign checks?

7 A Those are the only three that I know of,
8 sir. And I'm not sure whether Jim McDougal was or
9 not. I know Susan was. And here it would be an
10 assumption on my part to say that Jim was.

11 Q Let me give you several documents to
12 refresh your memory on this point.

13 (Document shown to the witness.)

14 This is document Bates Numbered DKRT
15 901049. This is a check by Whitewater Development
16 Company, Inc., dated May 5th, 1980. It states, "Pay
17 to the Order of Citizens Bank & Trust the amount of
18 \$4352.63."

19 It has your signature.

20 A Yes.

21 Q You were authorized to --

22 A Yes, I was.

1 Q -- sign checks on behalf of Whitewater?
2 A Yes, sir.
3 Q I'd like to give you a document with Bates
4 Stamp DKRT 500917.
5 (Document shown to the witness.)
6 Is this a Whitewater check?
7 A (Pause.)
8 Q For the record, the check states
9 "Whitewater Development" in the upper -- "Whitewater
10 Development Corporation".
11 It states "Pay to the order of Security
12 Bank" --
13 A All I can say, sir, you know, you asked me
14 if this was a Whitewater check?
15 I don't know. The "White Water" at the
16 top is different from the other one. As I recall,
17 "Whitewater" was one word.
18 Q But this shows the signature of James B.
19 McDougal?
20 A That's correct.
21 MR. COLE: One check is from 1980 and one
22 check is from 1984.

1 MR. JIAMPIETRO: Yes. This check is dated
2 October 4th, 1984.
3 MR. COLE: And one is on one bank, and one
4 is on another bank.
5 The 1980 check is on Union National Bank
6 in Little Rock; and the 1984 check is on Madison
7 Guaranty Savings & Loan.
8 BY MR. JIAMPIETRO: (Resuming)
9 Q To the best of your knowledge, James
10 McDougal had the authority to sign checks?
11 A As I recall he did, sir.
12 When I was actually, you know, really
13 involved in it. This would have been after a time
14 that I was not involved, I just did stuff. They'd
15 bring it to me at the end of the year in a box and
16 I'd have to sort through everything and do
17 everything.
18 We've got a saying in Arkansas, "on a
19 silver-lined cigar box," you know, and you've got to
20 sort through it.
21 MR. COLE: And the "they" there would be --
22 when you said "they" would bring it to you at the end

1 of the year.

2 THE WITNESS: After they moved to
3 Kingston.

4 MR. COLE: "They" being?

5 THE WITNESS: After the McDougals moved to
6 Kingston.

7 MR. COLE: The "they" being the McDougals
8 would bring you these records?

9 THE WITNESS: Yes.

10 BY MR. JIAMPIETRO: (Resuming)

11 Q Just refer, for the sake of completeness,
12 to DKRT 801368, which shows a copy of two checks
13 which state at the top Whitewater Development
14 Company, Inc.

15 (Documents shown to the witness.)

16 A Um-hmmm.

17 Q On the Bank of Kingston, Kingston,
18 Arkansas. These checks show the signature of Susan
19 A. McDougal?

20 A Susan "H".

21 Q Susan H. McDougal.

22 To the best of your knowledge, did Susan

1 McDougal have any authority to sign checks on behalf
2 of Whitewater?

3 A In the time that I was involved with it,
4 yes, sir.

5 MR. COLE: Can we go off the record for
6 one second?

7 MR. JIAMPIETRO: Sure.

8 (Discussion off the record.)

9 MR. JIAMPIETRO: Back on the record.

10 BY MR. JIAMPIETRO: (Resuming)

11 Q Finally I would like to refer to DKRT
12 500067.

13 This is a Whitewater Development Company
14 check on an account at the Bank of Kingston signed by
15 Blenda Howard.

16 Do you know who Blenda Howard is?

17 A I don't recall her; no, sir. It would be
18 speculation on my part to say who she was.

19 Q For the record, the check is dated
20 February 22nd, 1982. You were performing accounting
21 services for Whitewater at that time?

22 Were you performing accounting services

1 for Whitewater at that time?

2 A Yes, sir. But as I stated, I was not
3 doing them on, you know, a daily, weekly, or however,
4 basis. I was doing them once a year. And I want to
5 get that clear that I wasn't doing it on a daily
6 basis.

7 MR. COLE: I am confused about one thing
8 as it relates to what you just said because at
9 various times today you have indicated that you
10 prepared tax returns for Whitewater, and you also
11 performed other services for Whitewater beyond tax
12 services.

13 And I had asked you, and I think Mr.
14 Dinh may have asked you, when you performed
15 those services and it was difficult for you to
16 remember.

17 Now I'm wondering, seeing these checks
18 coming out of the Bank of Kingston signed by the
19 McDougals and this person, if you stopped doing
20 anything for Whitewater other than preparing tax
21 returns after Mr. McDougal moved to Kingston?

22 THE WITNESS: Yes, sir. That's what I

1 stated earlier; when they moved to Kingston.

2 MR. COLE: That's when you stopped doing
3 anything except --

4 THE WITNESS: Yes, because they took
5 everything up there.

6 MR. COLE: I'm sorry. I wasn't clear on
7 that. I understand that.

8 THE WITNESS: Yes.

9 BY MR. JIAMPIETRO: (Resuming)

10 Q I would like to move on now and show you
11 Document No. DKRT 900618.

12 (Document shown to the witness.)

13 I am going to ask you a number of
14 questions related --

15 A Is this the same one as before?

16 Q This is the same Form 2553 that I showed
17 you previously --

18 A Yes.

19 Q -- Bates Stamped DKRT 900618.

20 Was this document ever filed?

21 I'd like to note, and it may refresh your
22 memory that there is what appears to be a stamp in

1 capital letters at the top of the page that states
2 "accepted."

3 And in the middle of the page there
4 appears to be a stamp that states "September" the
5 date is illegible, "1979."

6 A Yes, sir.

7 I'm assuming it was; yes, sir. But that
8 would be an assumption on my part, and I'm just going
9 by the "accepted," you know.

10 Q Now you stated previously that your
11 signature was at the bottom of the page.

12 A Yes, sir.

13 Q I would just like to ask you, were there
14 any discussions involved in the preparation of this
15 document?

16 A I'm sure there were, sir, but I can't
17 recall any specific ones.

18 MR. COLE: I'm sorry? When you say you're
19 "sure there were," are you testifying that it was
20 your practice when preparing this kind of form that
21 you would discuss it with the McDougals and/or the
22 Clintons?

1 THE WITNESS: I'm sure I discussed this
2 with Mr. McDougal.

3 MR. COLE: Because we have a number of
4 these forms that were filed over the years in our
5 records, and it appears that this is not the only one
6 that you prepared.

7 THE WITNESS: For Whitewater?

8 MR. JIAMPIETRO: Yes, I think so.

9 THE WITNESS: There's different ones?

10 MR. JIAMPIETRO: I believe in our review
11 that I found several documents, but only one is
12 stamped "accepted."

13 There's another document that I believe
14 shows the same date, which may have been a draft of
15 some kind.

16 BY MR. JIAMPIETRO: (Resuming)

17 Q I would like to return momentarily to the
18 previous line of questions that I asked you regarding
19 authority to sign checks.

20 For the record, did Bill Clinton have the
21 authority to sign checks on behalf of Whitewater
22 Development Company?

1 A As I recall, he was not on the signature.

2 Q Did Hillary Clinton have the authority to
3 sign checks?

4 A As I recall, she was not.

5 Q In your work for other McDougal-related
6 entities, were any of those entities -- did any of
7 those entities elect Subchapter S status?

8 A (Pause.)

9 Sir, I believe there was. Pembroke Manor,
10 was it not a Subchapter S? I don't recall.

11 Q Why would one of the corporations have
12 elected Subchapter S?

13 A It's an election, you know. I can't
14 answer your question right now as to why it was done.

15 Q Generally in your work as an accountant,
16 did you ever advise corporations to elect Subchapter
17 S status?

18 A Well most of them were advised to by their
19 attorneys, other than me.

20 Q Why generally would a corporation choose
21 Subchapter S?

22 A Well, there's a lot of different

1 reasons.

2 I mean, you know, one is you're taxed
3 individually instead of the corporation being taxed.
4 Whereas, if you pay tax on the corporation and if you
5 draw something out, you're taxed again, and this just
6 flows through.

7 Q If there are significant losses in a
8 corporation that is Subchapter S, are those losses
9 passed through to the shareholders?

10 A They flow through; Um-hmmm.

11 Q Was there any discussion between
12 yourself and any of the parties involved in
13 Whitewater as to the benefits of using Subchapter S
14 as a tax shelter?

15 A Not that I recall; no, sir.

16 Q I'd like to show you a document DKRT
17 900812.

18 (Document shown to the witness.)

19 This is a handwritten note dated September
20 10th, 1981. It's a short note. I'll read it for the
21 record:

22 "Dear Sirs:

1 "We did not file a Form 1120S for
2 Whitewater Development Company, Inc., for
3 the initial return May 31st, 1980, because
4 of the IRS Rules concerning passive income
5 prohibited from being a Subchapter S
6 Corporation."

7 It appears to be signed in the lower right-hand
8 corner by McDougal is the only name that appears
9 legibly.

10 Do you recall seeing this document?

11 For the record, the document is dated
12 September 10th, 1981.

13 A Now that I look at it, I do vaguely
14 remember something about it.

15 Q Can you explain this note to us?

16 A Not at this point I can't, sir.

17 Q What do you remember regarding this
18 document, or the subject matter stated in the
19 document?

20 A Well, it appears that I'm trying to say
21 that we didn't file an 1120S because the IRS wouldn't
22 allow us to for this corporation.

1 EVENING SESSION

2 (6:00 p.m.)

3 BY MR. JIAMPIETRO: (Resuming)

4 Q Let's go into that in a little more
5 detail.

6 It states that the IRS Rules concerning
7 passive income prohibited us from being a Subchapter
8 S Corporation.

9 Can you explain what that reference is to?

10 A Not at this time I can't, sir. It's been
11 too long.

12 MR. COLE: Is that your handwriting, Mr.
13 James?

14 THE WITNESS: Yes, it is.

15 MR. COLE: Do you believe this is your -- is
16 your signature down there? Like Mr. Jiampietro, I
17 can read what appears to be "James McDougal" but I
18 can't read what's below that.

19 THE WITNESS: This looks like this was
20 just a -- by that being crossed out there, this was
21 something that would have been typed later.

22 MR. COLE: This may have been a draft?

1 THE WITNESS: Yes. It's what it appears
2 to me.

3 BY MR. JIAMPIETRO: (Resuming)

4 Q I was just trying to understand whether or
5 not a decision was made to revoke the Sub-S election
6 in the decisions and conversations relating to that
7 decision?

8 A I've been away from taxes so long I can't
9 really answer you, but it appears here that back then
10 that for some reason the IRS would not let Whitewater
11 be a Subchapter S.

12 But I've been away from this stuff too
13 long.

14 Q I'm going to move on to another --

15 A I would like to ask a question. You all
16 have the corporate returns. Were they filed as a
17 Sub-S, or as a 1120?

18 Q The corporate returns are filed 1120.

19 A Okay.

20 Q I was just trying to find out when that
21 decision was made, and how the decision was made, and
22 how the decision to revoke the Subchapter S --

250

1 A Well, it looks like here it wasn't a
2 decision on anybody's part except the IRS. And I'm
3 just basing that on what this says.

4 Q I'd like to show you a series of
5 documents. The first is DKRT 800938.

6 (Document shown to the witness.)

7 It is a Warranty Deed that reflects -- and I
8 will summarize here -- the transfer of the Whitewater
9 land from James B. McDougal and Bill Clinton and
10 Susan McDougal and Hillary Rodham, to Whitewater
11 Development Company, Inc.

12 It is dated the 30th day of September,
13 1979. Please take a moment to review it.

14 A (Pause.)

15 MR. COLE: They're going to ask you to
16 calculate the value based on the stamps --

17 BY MR. JIAMPIETRO: (Resuming)

18 Q How was the transfer of the real estate
19 noted in the deed to the corporation structure? Was
20 it a sale? Was it a Section 351 transfer under the
21 Internal Revenue Code?

22 Were you involved in structuring that?

1 A I was not involved in that. As I recall,
2 I wasn't. On the sale of the land to the
3 corporation --

4 Q Do you recall seeing this document?

5 A I may have, sir, but I can't say 'yes' or
6 'no.'

7 MR. COLE: So I take it, Mr. James, when
8 you just responded and said you were not involved in
9 the sale of the land to the corporation, by using the
10 term "sale" there you weren't meaning to imply that
11 one form of transfer was used rather than another?

12 Because Mr. Jiampietro asked you a three-
13 or four-part question with several alternative means
14 of transferring the property, and I don't think you
15 were intending to adopt one of those in your answer?

16 THE WITNESS: No, that's just a word I
17 use, you know.

18 MR. COLE: I think in this context it may
19 have become a term of art.

20 THE WITNESS: To be properly put, it
21 should be, put the transfer of the title to the --

22 MR. COLE: That's what I was getting at.

1 THE WITNESS: I don't know.

2 MR. COLE: I'd like to go off the record
3 for a moment.

4 (Discussion off the record.)

5 MR. JIAMPIETRO: On the record.

6 BY MR. JIAMPIETRO: (Resuming)

7 Q I would like to take some time with these
8 documents because I believe this is a very important
9 issue, and I believe that a lot of questions have
10 been raised regarding this transaction and the
11 transfer of land.

12 So I would like to take a little bit of
13 time to show you these documents to see if you
14 remember any of them.

15 A That's fine. I've stated that I want to
16 help in any way I can to the best of my memory. I
17 want to help.

18 Q The document Bates Stamped DKRT 800938
19 states that the transfer of the land, and I'll quote,
20 "subject to a certain mortgage dated August 2nd,
21 1978."

22 A Now where are you reading that, sir?

1 Q That's halfway down the page.

2 A Okay. Right here. Okay.

3 Q Based on your experience in business and
4 in the accounting profession, what would that mean
5 with regard to the transfer of this land? That the
6 land was transferred subject to a certain mortgage?

7 A Well, subject to the mortgage being taken
8 care of, or being --

9 Q Let me show you a copy of the mortgage --

10 Let me follow up with what you just stated
11 first. What do you mean "subject to the mortgage
12 being taken care of"?

13 A Well, you know, and this is just from my
14 humble, what I would think, is either the bank would
15 have to okay it, or the transfer before it could be
16 done. I'm not a legal person, so I really --

17 MR. COLE: So we are clear here, and you
18 have no -- you testified you didn't have any
19 involvement in this particular transfer, so whatever
20 testimony you are giving is entirely speculative or
21 is hypothetical; it's not -- you're not describing what
22 actually happened?

254

1 THE WITNESS: No.

2 BY MR. JIAMPIETRO: (Resuming)

3 Q "Subject to the mortgage," to the best of
4 your knowledge, doesn't mean "assume the mortgage"?

5 A Not to me, it wouldn't. I mean, you know,
6 there you could put words in my mouth -- who knows what
7 it meant here, other than who wrote it.

8 MR. COLE: And that was not you, I take
9 it?

10 THE WITNESS: No.

11 MR. DINH: I would say something about the
12 sanctity of the contract here, but that would be
13 going far afield.

14 (Document shown to the witness.)

15 BY MR. JIAMPIETRO: (Resuming)

16 Q Let me show you a document Bates Stamped
17 DKRT 800170.

18 A Okay.

19 Q Since this was a document I believe you
20 prepared, could you describe it for us?

21 A Okay. This is where the land is going
22 in --

1 Q Could you just generally describe the
2 document first, what it is?

3 A Okay. It's an adjusting journal entry to
4 the...

5 Q Did you prepare this document?

6 A Yes, sir.

7 And it appears here that the land,
8 \$202,611.20, and there was a note payable to Bill
9 Clinton and Hillary Rodham, and a note payable to
10 James B. McDougal to record, I can't read what that
11 says there, cost of land when purchased is what it
12 says, I think, to record initial cost of land when
13 purchased.

14 Is that correct?

15 Q Could you state the number that is listed
16 for each party, each note payable?

17 A The total cost of the land was
18 \$202,611.20. And a note payable for Bill and Hillary
19 Clinton for \$101,305.60. And a note payable to James
20 McDougal for \$101,305.60.

21 MR. COLE: That's a note payable -- that's
22 meant to represent a note payable by the corporation

256

1 to those individuals in that amount?

2 THE WITNESS: That's correct.

3 BY MR. JIAMPIETRO: (Resuming)

4 Q For the record, this was the opening
5 journal entry for Whitewater Development Company?

6 A That's correct.

7 Q For the Fiscal Year ending May 31st, 1980?

8 A Um-hmmm.

9 Q And the first year Whitewater was
10 incorporated?

11 A Um-hmmm.

12 Q Can you explain this journal entry to us?

13 A Well, I don't know how to explain it other
14 than it's recording the land on the books of the
15 company and notes payable to the different parties
16 there and putting them on the books of Whitewater.

17 Q Were any notes ever issued to these
18 parties?

19 A Any formal notes?

20 Q Yes.

21 A If there were, sir, I'm not aware of them.

22 Q When you prepared this opening entry, what

1 was the basis for making this entry?

2 A What do you mean, what was the basis for
3 making it?

4 Q If there were no formal notes payable, how
5 did you know that notes payable were issued to Bill
6 Clinton and Hillary Clinton and Jim McDougal?

7 A Because I sat down with Mr. McDougal and
8 this is what I was told.

9 Like I said, these records were furnished
10 from information given to me and that's all I had to
11 go on.

12 Q For clarification, when would you have
13 prepared this document?

14 A When I did the -- if you want a date, I
15 don't know the date, but it would have been done --

16 Q Approximately.

17 A -- whenever the tax return -- when we were
18 closing the books and getting read to prepare the tax
19 return for the Fiscal Year ending May 31st, 1980.

20 (Document shown to the witness.)

21 Q I would like to show you a document Bates
22 Stamped CBF 0312. This document states at the top,

1 "Excerpts from the Minutes of the Meeting of the
2 board of directors of Whitewater Development Company,
3 Inc." It is dated October 30th, 1982. It is signed
4 by an S.H. McDougal.

5 Would you take a moment to review these
6 resolutions, particularly the first sentence in the
7 first resolution. I'll read it:

8 "BE IT RESOLVED that Whitewater
9 Development Company, Inc., pledged to
10 Citizens Bank & Trust Company corporate
11 assets for the purpose of securing
12 obligations of the corporation to Citizens
13 Bank & Trust Company, and to guaranty
14 obligations to Citizens Bank & Trust
15 Company which the corporation assumed and
16 agreed to pay."

17 If you had had this document when you were preparing
18 the opening ledger, would you have still indicated
19 that notes payable were issued to the Clintons and
20 the McDougals?

21 MR. COLE: I'm sorry, this document is
22 dated October 1982. I believe he testified that he

1 would have prepared the document you previously
2 showed him in 1980. So what is it you are
3 suggesting, that he would have had a 1982 document in
4 1980? I am not following that.

5 MR. JIAMPIETRO: The background on this
6 particular question is this resolution appears to
7 state that Whitewater assumed the obligation to
8 Citizens Bank & Trust.

9 MR. COLE: Give me a moment to read the
10 document.

11 BY MR. JIAMPIETRO: (Resuming)

12 Q The warranty deed dated September 30th,
13 1979, states -- transferring the land from Susan
14 McDougal and Bill Clinton, James McDougal and Hillary
15 Rodham to Whitewater Development Company, transferred
16 the land "subject" to the mortgage.

17 The question is whether or not this was
18 clarifying that when the land was transferred
19 Whitewater assumed the obligation.

20 MR. COLE: I just don't want to suggest to
21 Mr. James, based on one document that something
22 occurred that may or may not have occurred,

1 because -- and I want to make sure I am understanding
2 you correctly.

3 You are reading this document to indicate
4 that in fact the corporation assumed the debts of the
5 individuals?

6 BY MR. JIAMPIETRO: (Resuming)

7 Q I just read what the document said.

8 MR. COLE: No, you said more than what is
9 in the document.

10 MR. JIAMPIETRO: And I am asking whether
11 or not this document clarifies whether or not the
12 corporation assumed the obligation to Citizens Bank &
13 Trust when the land was transferred from the
14 McDougals and Clintons to Whitewater.

15 I have a series of questions regarding
16 this document, as well.

17 BY MR. JIAMPIETRO: (Resuming)

18 Q Let me first ask you regarding -- Well, let
19 me wait for --

20 MR. COLE: I'd like a moment to read the
21 document because you're getting into a very technical
22 area here, and just for my own understanding I want

1 to be able to follow your line of questioning.

2 THE WITNESS: Can we take a quick break,
3 then?

4 MR. COLE: Sure.

5 (Whereupon, a brief recess was taken.)

6 MR. JIAMPIETRO: On the record.

7 BY MR. JIAMPIETRO: (Resuming)

8 Q Returning to the document Bates Stamped
9 CDF 0312, were you involved in the preparation of
10 this document?

11 A No, sir.

12 Q Are you familiar with the document?

13 A It's the first time I've seen it.

14 Q Let's return to the document Bates Stamped
15 DKRT 800170, the opening entry.

16 A Um-hmmm.

17 Q From this, what was the value of the land
18 when it was transferred to the corporation? Can you
19 tell us from looking at this?

20 A Well, what the land -- what it's value was,
21 who knows? But it was put on the books at
22 \$202,611.20.

1 Q Isn't there also, though, an entry on line
2 15, the entries at the bottom referring to land first
3 states: "Land, note pay Bill Clinton & HR to record
4 entry paid by" and it appears to be "RC"?

5 A Yes. I assume it's that.

6 Q And below that, "Land, note payable" -- note
7 pay GLSC to record interest paid by GSLC. In each
8 case the amount listed is \$10,130.56?

9 A Um-hmmm.

10 Q Would those have increased the value of
11 the land?

12 A That's the way it was set up; yes, sir.

13 Q So it came onto the books of Whitewater
14 for more than what the parties originally paid for
15 the land?

16 A Than the original -- the way I -- and this is
17 going back, you know, let's see, how many years? 16?
18 It appears that we put the land on there for
19 \$202,611.20.

20 MR. COLE: That was the purchase price, if
21 I recall correctly.

22 THE WITNESS: Yes. They originally

1 purchased it at that.

2 Then it appears to me that what we did
3 was, they had paid interest personally, and it was
4 added to the cost of the land when it was transferred
5 to the books.

6 And here again I'm just having to try to
7 recollect after 16 years.

8 Q What is "GSLC" for the record?

9 A Great Southern Land Company.

10 Q Are there things other than interest that
11 are shown here as added to the --

12 MR. COLE: I think it would be helpful to
13 have the witness explain the entire document instead
14 of just focusing on one line.

15 BY MR. JIAMPIETRO: (Resuming)

16 Q I agree.

17 A Well, this right here appears to be a
18 general journal entry that expenses that Great
19 Southern Land Company paid for surveys, miscellaneous
20 expense, legal, taxes, license, some road expense,
21 interest, advertising.

22 BY MR. JIAMPIETRO: (Resuming)

1 Q Would those have been expenses paid during
2 the first year of the corporation?

3 A Yes.

4 Q When would Great Southern Land Company
5 have paid those expenses?

6 A As for dates, I don't know, sir. But in
7 order for me to put them on here, I assume they would
8 have been paid within the fiscal year for it.

9 MR. COLE: And you would have based this
10 on information that you were provided by
11 Mr. McDougal?

12 THE WITNESS: Yes, sir, and from the
13 other, you know, books that were kept. I'm sure
14 that, you know, if this was paid it was -- and I say
15 I'm "sure," I'm assuming there was an interest set up
16 on Great Southern Land Company for the amounts paid
17 for Whitewater.

18 MR. COLE: I'm sorry, I'm just trying to
19 understand this entry.

20 All of the, as I see it, the line items
21 that begin with surveying and go through legal and
22 down to advertising, are all of those related to

1 Great Southern Land Corporation?

2 THE WITNESS: No, sir, they're related to
3 Whitewater but they were paid for by Great Southern
4 Land Company.

5 MR. COLE: So the note payable to Great
6 Southern Land Corporation, does that balance --

7 THE WITNESS: These (indicating).

8 MR. COLE: These, plus the original price
9 of the land?

10 THE WITNESS: No, sir. These are just
11 expenses.

12 MR. COLE: I see. But this number
13 (indicating)?

14 THE WITNESS: That's a note that
15 Whitewater owed -- I mean, that Great Southern owed
16 Whitewater -- excuse me, that Whitewater owed Great
17 Southern.

18 MR. COLE: Okay, this is not going to make
19 any sense at all on the record.

20 When I said "this," I was referring to
21 this, what is it?

22 THE WITNESS: \$26,392.69.

266

1 MR. COLE: And is that number the total of
2 these expenses that are listed in the column beside
3 it?

4 THE WITNESS: Yes, sir. That's correct.

5 BY MR. JIAMPIETRO: (Resuming)
6 (Document shown to the witness.)

7 Q Let me give you several documents which
8 may help you give a little more explanation as to
9 some of the expenses paid during the first year of
10 incorporation --

11 A These were all things that I had. I would
12 like to know where they came from. I'm assuming that
13 my records were copied.

14 Q Let me first ask you.

15 I have given you documents DKRT 800048 and
16 DKRT 800047. Please refer to DKRT 800047 first.

17 Did you prepare this document?

18 A That's my writing. Yes, sir.

19 Q Could you explain what it shows?

20 A (Pause.)

21 Q It is dated, just to give you some
22 reference points, it is dated 1978 in the upper left-

1 hand corner, and it appears to show different
2 expenses.

3 A Um-hmmm.

4 Q And there are dates next to each expense,
5 and there is a list of numbers running along the
6 right margin --

7 A Yes, sir.

8 Q -- on each line.

9 Were these pre-incorporation expenses?

10 A There again, sir, I don't remember.

11 Q Maybe if you would refer to DKRT 80048 --

12 A I mean, I had to get the figures from
13 somewhere, but where I can't remember.

14 Q This document appears to be an earlier
15 version, perhaps? Could you explain?

16 Did you prepare this document, first of
17 all?

18 A That's my writing; yes, sir.

19 MR. COLE: And what is it that makes you
20 suggest to the witness that it is an earlier version,
21 just so I am following you here, since we're going to
22 plant in his mind the idea that this is an earlier

1 version. I'm curious what the basis for that is.

2 MR. JIAMPIETRO: If you look at the
3 document Bates Stamped DKRT 800047, it refers to
4 "1979." And some of the dates along the left-hand
5 margin are similar and have similar listings and
6 similar amounts shown.

7 (Pause.)

8 (Witness is writing on napkin.)

9 MR. JIAMPIETRO: Would you like a piece of
10 paper?

11 THE WITNESS: No, I'm fine. I'm just
12 trying to --

13 MR. DINH: Here is a calculator for you.

14 THE WITNESS: No, I'm just about through
15 here. I'm just trying to see if any of these add up.
16 I don't remember.

17 Go ahead with your question. I'll answer
18 what I can about it.

19 BY MR. JIAMPIETRO: (Resuming)

20 Q Okay.

21 Can you describe these documents for us
22 and explain what they are?

1 A No, sir, at this point I can't.

2 (Laughter.)

3 Q Can you read the notes at the bottom of
4 the page marked DKRT 800048?

5 MR. COLE: First, whose handwriting is
6 that, if you know?

7 Is it yours?

8 THE WITNESS: No, sir, it is not mine.

9 MR. COLE: Do you recognize it?

10 MR. JIAMPIETRO: Do you recognize it?

11 THE WITNESS: Yes, sir. It appears to be
12 James McDougal's.

13 BY MR. JIAMPIETRO: (Resuming)

14 Q Did you discuss any of these notes with
15 him?

16 A These down here (indicating)?

17 Q Yes.

18 A I don't recall any of these. I do know
19 from the handwriting that I prepared these others,
20 and maybe I gave this to him to take action on. But
21 that would be speculation because I don't remember
22 these (indicating), even.

270

1 MR. COLE: Well there's a distinction here
2 that suggests if this is his handwriting on here,
3 there are two possibilities -- or there could be more
4 than two -- but one would be that you prepared this and
5 gave it to him, and then he added things; or, the
6 other possibility would be that the two of you
7 discussed and he put these down in your presence. I
8 am wondering if you recall which might have been the
9 case.

10 THE WITNESS: I do not recall being with
11 him. Of course I don't remember -- I don't recall
12 being with him when he wrote this on there. There
13 were a lot of instances where I would give him
14 something and then he would make his notes on it. I
15 think ya'll will run across documents like that in
16 there. I'm sure you have.

17 BY MR. JIAMPIETRO: (Resuming)

18 Q I am going to state for the record, or
19 read the notes that are listed on the bottom of this
20 page.

21 The first note states:

22 "Borrow \$10,000 to pay interest. Repay

1 from house loan."

2 Do you have any knowledge of that?

3 A No, sir.

4 Q The second point states: "Buy beach house
5 at Hot Springs."

6 Do you have any knowledge of that?

7 A No, sir.

8 Q The third point states "Can't sell notes"
9 I can't read the -- the rest of the line is illegible,
10 except there's a reference to "tax burden".

11 A Um-hmmm.

12 Q Do you have any knowledge of that?

13 A No, sir.

14 Q The fourth point states: "Minimize taxes
15 1978, employ tax strategy 1979."

16 Do you have any knowledge regarding that?

17 A No, sir, I do not.

18 MR. COLE: Is there anything about any of
19 these items, one, two, three, or four, that would
20 lead you to believe they relate to Whitewater? And I
21 am particularly looking at things like "Buy beach
22 house at Hot Springs"?

272

1 THE WITNESS: Well, that's what I was
2 sitting here thinking. This is just speculation on
3 my part; he might of just taken this paper and
4 written him some notes on here. I can't say, you
5 know --

6 MR. COLE: So there's nothing in these
7 one, two, three, or four that at least would lead you
8 to believe that any of these notes refer specifically
9 to Whitewater?

10 THE WITNESS: No, sir, not to me it
11 doesn't.

12 BY MR. JIAMPIETRO: (Resuming)

13 Q Except I would point out that they are
14 written on the bottom of --

15 A Yes, sir.

16 Q -- of the Whitewater Journal -- or notes
17 written that may have been prepared --

18 Were these notes prepared by you in
19 preparing --

20 A Yes, sir --

21 Q -- the Whitewater Journal?

22 A Well, now, I don't think they were for the

1 Whitewater Journal, were they? I think they were
2 just schedules I made to show him or something, the
3 way it appears.

4 Q When would you have prepared these?

5 A I have no date as to when it might have
6 been, sir. I really don't know. But these might of
7 been things I had written down to ask him about or,
8 you know, to show him.

9 MR. COLE: Was Mr. McDougal careful about
10 writing notes on things? Or would he write a note on
11 anything that appeared on his --

12 THE WITNESS: He'd pick up anything and
13 write on it.

14 BY MR. JIAMPIETRO: (Resuming)

15 Q But these schedules do relate to
16 Whitewater?

17 A (Pause.)

18 Q The schedules --

19 A By all the indications, they do, yes, sir.

20 MR. COLE: That is, the portion of it that
21 is in your handwriting.

22 THE WITNESS: Yes; Um-hmmm.

1 MR. COLE: You can't speak one way or
2 another for the other portion --

3 THE WITNESS: You see, this right down
4 here is not my handwriting.

5 MR. COLE: Okay, the record won't reflect
6 it, but you're looking at document number DKRT
7 800048, and you're looking at the numbers in the
8 middle of the page?

9 THE WITNESS: Yes.

10 MR. COLE: That's not your handwriting?

11 THE WITNESS: That's not my handwriting,
12 the eleven hundred, and then where it's totalled
13 here. I did not put that on there.

14 MR. JIAMPIETRO: Off the record a moment.
15 (Discussion off the record.)

16 MR. JIAMPIETRO: On the record.

17 BY MR. JIAMPIETRO: (Resuming)
18 (Document shown to the witness.)

19 Q I would like you to refer to DKRT 801348.
20 This is a check. It states on the upper left-hand
21 corner "Bill Clinton or Hillary Rodham". It's check
22 No. 697 dated 12/28/1978, made out to Great Southern

1 Land Company for the amount of \$10,130.59. It's a
2 Union National Bank check.

3 A I see.

4 Q The note states, "reimbursement of six
5 months' interest," and it's signed by Hillary Rodham.

6 A Um-hmmm.

7 Q Are you familiar with this check?

8 A If you're asking if I remember
9 specifically, no, sir. But if it was deposited in
10 Great Southern, I'm sure I saw it go through there at
11 that time.

12 It's a different figure from these.

13 That's just what I checked.

14 MR. COLE: Pretty darned close, though.

15 THE WITNESS: It's close. If it's six
16 months' interest it could have been --

17 MR. COLE: Just so the record is clear,
18 when you say "different figure from these," you are
19 comparing the amount of ten thousand --

20 THE WITNESS: \$10,130.58, and that is
21 \$10,130.56.

22 MR. COLE: On DKRT 800170, which was the

1 journal entry that showed a list of Whitewater
2 expenses, and it said -- can you read that, Mr. James?

3 THE WITNESS: "Note payable, Bill Clinton
4 and Hillary Rodham" or "HR" is what I have.

5 MR. COLE: \$10,130.56?

6 THE WITNESS: \$10,130.56.

7 MR. COLE: And this check is for
8 \$10,130.58?

9 THE WITNESS: Um-hmmm.

10 BY MR. JIAMPIETRO: (Resuming)

11 Q I would like to move on to document Bates
12 Stamped DKSX 014217, which is the 1979 U.S.
13 Corporation Income Tax Return from Whitewater
14 Development Company.

15 A Yes, sir.

16 Q I would like to -- three pages from the
17 return are listed. The other two are DKSX 014220 and
18 DKSX 104223.

19 This return is not signed.

20 Did you prepare this return?

21 A That's my handwriting, and that's been my
22 contention all along of who got these files, and who

1 made copies because when I prepared a return -- well,
2 this one doesn't make sense at all because I
3 generally, if it didn't have it, it was typed in
4 there or a label was used. This was initial return,
5 so it would have been typed in there.

6 I always type my name at the bottom, and
7 then sign it. But I didn't sign my copy for my file;
8 but when I made photocopies, the photocopies I gave
9 the clients were signed.

10 This, I don't know where it came from.

11 MR. COLE: Before a final tax return was
12 prepared for one of your clients, would you prepare
13 essentially a draft in hand? Is that your practice?

14 THE WITNESS: A lot of times I did.

15 MR. COLE: I guess what I'm asking is
16 whether it is possible that this might have been a
17 draft that you had in your files that was not the
18 final return?

19 THE WITNESS: It's possible; yes, sir.
20 Now the figures might indicate it is, but a lot of
21 times I would be in a hurry and write so where it
22 wasn't quite legible, and I would go back in and

1 rewrite it in there when I took my time.

2 MR. COLE: And I take it from your comment
3 that you have some concern about the source of these
4 documents.

5 You indicated I think in your earlier
6 testimony that you permitted Mrs. Clinton to copy
7 your files --

8 THE WITNESS: No, sir. I didn't permit
9 her to "copy" them. I left them with her to look at.
10 But evidently -- and I don't say it was there, but
11 somehow somebody made a copy of all my files.

12 BY MR. JIAMPIETRO: (Resuming)

13 Q This would have been the corporate return
14 for the first year Whitewater was incorporated?

15 A That's correct.

16 Q Would you please refer to line 18 on DKS
17 014220?

18 A Okay.

19 Q It's on Schedule L, Balance Sheets.

20 A Okay.

21 Q It lists under the heading "Liabilities
22 and Stockholder Equity," line 18, requests

- 1 information on loans from stockholders.
2 A Okay.
3 Q That line is in blank.
4 A That's correct.
5 Q You stated in earlier questioning that
6 when the land was transferred from the Clintons and
7 McDougals to Whitewater, notes payable were issued to
8 Bill Clinton and Hillary Clinton and Jim McDougal.
9 Wouldn't those notes have been listed
10 here?
11 A That's the way I -- Yes, sir, unless I got
12 it on the wrong line. And that's the way I did put
13 it over here in this adjusted journal entry the way
14 you're showing. I set the notes up that way.
15 Well, let's see. Just a minute. Yes.
16 Um-hmmm.
17 Q For clarification, line 19 requests
18 information on mortgages, notes, bonds payable in one
19 year or more.
20 A Um-hmmm.
21 Q And lists the amount \$222,872.32.
22 A Um-hmmm.
-

- 1 Q That is the amount listing the mortgages
2 and notes, but it also should have listed the loans
3 from stockholders if notes payable were issued to the
4 Clintons and to Jim McDougal.
5 MR. COLE: Is that a question?
6 BY MR. JIAMPIETRO: (Resuming)
7 Q Should it have also listed the notes
8 payable to the Clintons and to Jim McDougal as a
9 separate line?
10 A I didn't follow you on this now.
11 Q Okay.
12 You just had the -- are you telling us that
13 you incorrectly listed the number one line down?
14 A I'm not telling you. I don't know what
15 happened, sir. And like I say, I have questions with
16 this because this might be the final one to IRS, but
17 it doesn't --
18 Q Let me --
19 A And if you all --
20 Q -- show you the --
21 MR. COLE: Well before we leave that, to
22 my knowledge we don't have a final 1979 filing. Do

1 you gentlemen have something that I'm not aware of?

2 MR. JIAMPIETRO: We will use a later
3 return, as well.

4 MR. COLE: For now, though, since you've
5 been asking him about '79, I am interested in what we
6 have or don't have.

7 MR. JIAMPIETRO: This is the only copy of
8 the return that we have for 1979.

9 MR. COLE: That's the only copy that I
10 have, as well. So if we had it -- at least if I had
11 it, I would show it to you, Mr. James. I don't have
12 it.

13 MR. DINH: Off the record.
14 (Discussion off the record.)

15 MR. JIAMPIETRO: On the record, please.
16 (Discussion off the record.)

17 BY MR. JIAMPIETRO: (Resuming)

18 Q I would like to show you documents Bates
19 Stamped DKSX 014246 through 014250. This is the U.S.
20 Corporation Income Tax Return for Whitewater for the
21 year 1980?

22 A Yes, it is -- well, no, sir, it's for '81.

1 Q Oh, I'm sorry.

2 A For the Fiscal Year ended May 31st, 1982.

3 MR. JIAMPIETRO: Off the record.
4 (Discussion off the record.)

5 MR. JIAMPIETRO: On the record, please.

6 BY MR. JIAMPIETRO: (Resuming)

7 Q I would like to just restate for the
8 record the document number that I am going to show
9 you, DKSX 014246 through 014250. If you would, refer
10 to line 18, schedule L.

11 A Yes.

12 There's no entry.

13 Q There is no listing?

14 A That is correct.

15 Q On the "loans to shareholders" line.

16 A Yes.

17 Q But the number \$222,502.32 is listed in
18 line 19 for mortgages, notes, bonds payable in one-
19 year or more on Schedule L?

20 A Yes, sir.

21 MR. COLE: I'm sorry, you said loans "to"
22 shareholders --

1 BY MR. JIAMPIETRO: (Resuming)

2 Q Loans "from" shareholders.

3 A Loans from shareholders, right.

4 MR. COLE: Or loans from stockholders, I
5 think, is what it says.

6 THE WITNESS: I cannot answer your
7 question as to why that is that way.

8 BY MR. JIAMPIETRO: (Resuming)

9 Q Does that mean that was in error?

10 A I don't know, sir, at this point.

11 I put it here.

12 I always -- and this is just speculation on
13 my part -- the next thing I would do is take this
14 (indicating), and copy it over here to the beginning
15 of the year, and it was on that line --

16 MR. COLE: Wait. Slow down a little Mr.
17 James, because when you say "here" and "here," when
18 we are reading this transcript none of this will make
19 sense.

20 THE WITNESS: Okay. When I would take,
21 for preparing the next year's, on the back under the
22 balance sheet, I would take the end of the last

1 taxable year and copy those figures into the
2 beginning of the tax year.

3 BY MR. JIAMPIETRO: (Resuming)

4 Q For the next year's return.

5 A Yes, sir.

6 And now I am not saying it was an error.
7 I can't answer as to why. I don't know. I really
8 don't. If I would, I would be happy to tell you.

9 Q Let's move on.

10 MR. COLE: Off the record for a second.
11 (Discussion off the record.)

12 BY MR. JIAMPIETRO: (Resuming)

13 Q Moving on, I would like to show you
14 documents Bates Stamped DKRT 800049, 800050. Would
15 you please describe these documents?

16 (Documents shown to the witness.)

17 A That looks like a worksheet for Whitewater
18 Development Company for the Fiscal Year ending May
19 31st, 1980.

20 Q Did you prepare these documents?

21 A Yes, sir; that's my writing.

22 Q Would you look at the line three quarters

- 1 down the page that states "Loan, Bill Clinton."
2 A Okay.
3 Q It lists \$2,900.
4 A Yes, sir.
5 Q And then an adjustment for \$500?
6 A Yes, sir.
7 Q Can you explain that entry for us?
8 A At this time, no, sir.
9 (Document shown to the witness.)
10 Q I would like to give you a document Bates
11 Stamped DKRT 801103.
12 Could you please describe this document?
13 Let me, for the sake of efficiency, let me
14 describe it. It also appears to be a worksheet for
15 the journal.
16 A Yes, sir.
17 Q The Whitewater Journal.
18 A It appears that that's what I showed to --
19 for capitalizing \$1000.
20 Q Would that have been -- what would that
21 entry have represented?
22 A At this time, and this is just speculation
-

- 1 on my part as to what I re -- you know, what was down
2 here, it looks like it's for \$500 for each of these
3 for capital stock.
4 Q That would have indicated that \$500 of the
5 \$2900 was used -- was paid in capital?
6 Is that correct?
7 A Yes, sir. I mean, that's the way it is
8 shown here.
9 Q And the result -- and the balance of that
10 was recorded as a loan to Bill Clinton?
11 A (Pause.)
12 Q Or loan from Bill Clinton?
13 A A loan from Bill Clinton.
14 That's the way it's recorded; yes, sir.
15 Q Were these funds, \$1000, used for the
16 initial purchase -- did they record the initial
17 purchase of the stock by the shareholders?
18 A That's what it's showing, yes, sir, that
19 there was \$500 from Bill Clinton, and \$500 from Great
20 Southern Land Company.
21 MR. COLE: And why is nothing shown for
22 you, Mr. James, since you --

1 THE WITNESS: (Interrupting) -- because
2 evidently -- evidently, I was already out of it. I
3 don't remember on it. Like I said, I wasn't in this
4 thing very long at all.

5 MR. COLE: I'm sorry, so this entry would
6 not refer to the original formation of the
7 corporation? It would be for a later period?

8 THE WITNESS: You all are asking me to
9 remember something I can't remember.

10 MR. JIAMPIETRO: I am going to move on.

11 THE WITNESS: As I stated before, all of
12 this was done after he had moved to Kingston and I
13 was trying to get thing done to get the taxes on
14 file.

15 MR. JIAMPIETRO: We are getting close.

16 THE WITNESS: I want to answer all your
17 questions the best I can, and I am trying.

18 MR. COLE: We do appreciate it.

19 MR. JIAMPIETRO: We do appreciate it;
20 thank you very much, Mr. James.

21 BY MR. JIAMPIETRO: (Resuming)

22 (Document shown to the witness.)

1 Q I would like you to refer to DKRT 800533.

2 A All right.

3 Q This is a check from Bill Clinton or
4 Hillary Clinton dated August 23rd, 1980, for the
5 amount of \$9000 drawn on Union National Bank.

6 A Um-hmmm.

7 Q Signed by Hillary Rodham.

8 A Um-hmmm.

9 Q Have you ever seen this document before?

10 A Not to my recollection, sir. It's "pay to
11 the order of" no one on there. Unless you have a
12 back showing who it was endorsed by.

13 (Discussion off the record.)

14 Q On the back it states that the check was
15 deposited at Citizens Bank & Trust Company. At least
16 there is a stamp which states "Citizens Bank & Trust
17 Company, Flippin, Arkansas, September 5th, 1980."

18 Does that refresh your memory?

19 A No, sir.

20 MR. COLE: How long did it normally take
21 checks to clear in Arkansas, if you're aware, at that
22 time, Mr. James? Because from August 23rd to

1 September 5th seems to me a longer than normal
2 clearing period for a check. This check might not
3 have been deposited right away.

4 THE WITNESS: Well, I don't know. It went
5 to Citizens in Flippin, so, you know, they might of
6 still hand-stamped everything there. Who knows?

7 MR. COLE: But this doesn't show it went
8 to some other institution and then was deposited into
9 Citizens Bank of Flippin, as I am reading this. It
10 appears that that is the only bank that stamped this
11 check, and that is the date that they stamped it.

12 So one would assume that they received it
13 either on that date, perhaps late in the day before,
14 and stamped it, and it doesn't explain what happened
15 between August 23rd and September the 5th.

16 Ah, mysteries; mysteries.

17 BY MR. JIAMPIETRO: (Resuming)

18 Q Okay. Let's move on.

19 (Documents shown to the witness.)

20 I am going to show you a series of
21 documents Bates Stamped DKRT 900155, DKRT 801344.

22 This first document is a copy of the

290

1 promissory note from Union National Bank in Little
2 Rock for the amount of \$20,000, and signed by Bill
3 Clinton and James McDougal.

4 It states that the note was due on
5 6/16/1980.

6 The second document shows the bank
7 statement of Whitewater Development at Union National
8 Bank of Little Rock. It's a checking account
9 statement for the period 5/30 through 6/30/1980. It
10 shows a deposit on June 20th of \$20,000, and a check
11 114 clearing on June 23rd in the amount of
12 \$21,346.29.

13 Were you involved in any way in the
14 payment of the Union National Bank loan?

15 A No, sir, not that I recall. I sure don't.
16 All of this leads me to the indication that I was out
17 of this before the first tax return was even filed.

18 MR. COLE: When you say "out of this," you
19 mean --

20 THE WITNESS: Out of Whitewater
21 Development.

22 BY MR. JIAMPIETRO: (Resuming)

1 Q This promissory note is dated December
2 17th, 1979, and the Union Bank Statement is for 5/30
3 through 6/30/80.

4 You said that you would have been out
5 handling the Whitewater documents by June 30th of
6 1980?

7 A Well I'm in as a stockholder in it.

8 There's a pretty good description in the
9 time difference here between this "20" and this "20."
10 This is the 17th of '79, and this is June 20th of
11 '80.

12 Q One of these documents pays off the note.
13 The note came due on June 16th, 1980, and the bank
14 statement for Union --

15 A Okay, the 21? Is that what you're saying?

16 Q That's right.

17 A Yeah.

18 Q June 23rd. I am asking you whether or not
19 that reflects the payment on the Union Bank note.
20 And if you have any knowledge as to how that note was
21 paid.

22 MR. COLE: I'm sorry? You have stated

1 that as a fact -- and I have no reason to believe that
2 is not the fact, but are you asking him that as a
3 question, whether he has any knowledge --

4 BY MR. JIAMPIETRO: (Resuming)
5 (Document shown to the witness.)

6 Q I would like to show you a document Bates
7 Stamped DKRT 901077.

8 A If you can show me something to refresh my
9 memory, I will be happy, too.

10 Q Let's see if this does.

11 A Okay.

12 Q It's a check from Whitewater Development
13 Company dated June 23rd, 1980, in the amount of
14 \$21,346.29. Pay to the order of Union National Bank.

15 A Yes, sir. I'm assuming it would, because
16 it's the same note number as this note is.

17 MR. COLE: Did you sign the check, Mr.
18 James?

19 THE WITNESS: Yes. Um-hmmm.

20 BY MR. JIAMPIETRO: (Resuming)

21 Q You have no knowledge of where these funds
22 came from?

1 A No, sir, not at this time I sure don't.
2 There's a \$20,000 deposit there on June the 20th, but
3 as to where it came from, if you all can tell me,
4 which I bet you all have got a deposit slip --

5 (Document shown to the witness.)

6 Q There is a deposit slip Bates Stamped DKRT
7 90068 from the Union National Bank dated June 20th,
8 1980. It states: "James B. McDougal, \$20,000 (Bank
9 of Cherry Valley)"?

10 A Yes, sir. That's what it states.

11 Q Would the funds to pay off the Union Bank
12 note have come from Jim McDougal, the deposit of
13 \$20,000?

14 A At this point, I'll have to assume it does
15 because the dates correspond to everything.

16 MR. COLE: Off the record for a second.

17 (Discussion off the record.)

18 MR. JIAMPIETRO: On the record.

19 (Documents shown to the witness.)

20 BY MR. JIAMPIETRO: (Resuming)

21 Q I would like to show you a document Bates
22 Stamped DKRT 400989, and document DKRT 50067.

1 A Okay.

2 Q The first document is a letter from Jim
3 McDougal to Bill Clinton dated March 1st, 1982, which
4 states, "I have paid from Whitewater Development
5 Corporation the note you owned Citizens Bank of
6 Jonesboro. You are correct in your belief that the
7 sum of money borrowed was part of your investment in
8 Whitewater."

9 Are you familiar with any note from
10 Citizens Bank of Jonesboro that was taken out by Bill
11 Clinton and used by Whitewater Development Company?

12 A No, sir. At this time it doesn't ring a
13 bell to me.

14 Q The second document is a Whitewater
15 Development Company check dated February 22nd, 1982,
16 to Citizens Bank in the amount of \$5,671.20, signed
17 by Glenda Howard.

18 Any knowledge of this check and the
19 payment on this note?

20 A No, sir. And I'm sure that if this was a
21 Whitewater check, I entered it somehow on their
22 books. But as to how at this time, I can't tell you.

1 Q Let me ask you about --

2 A I hope you all understand that this was
3 all done long distance. You may not have clients
4 like this, but being a small person you just had to
5 dig information and --

6 Q Mr. James --

7 A -- I got this stuff a lot of times it was
8 over a year, because I had to get extensions.

9 Q This is very tedious, and we certainly
10 appreciate your effort. We are just trying to get
11 some answers and see if anything --

12 A And I'm not trying to evade your questions
13 as to when I say I don't remember. I really don't.
14 (Document shown to the witness.)

15 Q Please review Document Bates Stamped LP
16 01981.

17 A Okay.

18 Q This is the journal entry on the first
19 page for the payment on the Citizens Bank loan.
20 Did you prepare this document?

21 A Yes, sir.

22 Q You did.

1 Can you describe this journal entry?

2 A Well, actually this is not a journal
3 entry, sir. This looks like it was from the check
4 stubs and bank deposits.

5 I was trying to get some type of journal,
6 because you'll notice here's the bank, and here's
7 how -- basically I was just having to work with a
8 spread sheet is all I could do, because this was
9 difficult.

10 Q Is this a working paper that you prepared?

11 A It looks like more of a journal where I
12 was trying to record checks and deposits.

13 Q On the second page, LP 01982, it lists the
14 amount \$5,691.20.

15 Would you read the line, the category that
16 that is listed under?

17 A "Interest expense."

18 Q Interest expense.

19 Did you record that whole amount as an
20 interest expense in the Whitewater ledger?

21 A At this point, yes, sir.

22 That's how that check number 133 --

1 Q Let's move on to the next issue.

2 I would like to move on to the next and
3 last topic, which is lot 13.

4 A Okay, now refresh my memory. I am just
5 asking. Is this the lot the house is on?

6 Q Yes. Lot 13 is the lot that was released
7 by Citizens Bank to Whitewater and then was purchased
8 from Whitewater by Hillary Clinton.

9 Were you involved in any transaction
10 involving this lot 13?

11 A How do you mean "involved in that
12 transaction"?

13 Q Can you just give us a brief description
14 of your knowledge regarding this transaction? Any
15 knowledge that you have on it? How you understood --

16 A To the best I remember, it had to be
17 released because they had to get a loan on the house
18 and that lot had to be released, if I'm not mistaken.
19 I could be wrong on that, but, you know, is that the
20 way the papers work out there? Or can you tell me?

21 (Documents shown to the witness.)

22 Q I'll show you documents Bates Stamped DKRT

298

1 900163, 900019, and 900021.

2 The first document is the second page of
3 the document that I just gave you is the mortgage
4 dated December 16th, 1980, held by Bank of Kingston
5 on Hillary Rodham's -- on tract 13 of Whitewater
6 Estates purchased by Hillary Rodham.

7 It shows that the -- it lists tract 13 as
8 securing a \$30,000 note and is dated December 16th,
9 1980.

10 The next page, DKRT 900021, is the
11 warranty deed from Whitewater to Hillary Rodham dated
12 December 20th, 1980, four days after the mortgage
13 releasing tract 13 on Whitewater to Hillary Rodham.

14 (Pause.)

15 Are you familiar with who arranged the
16 financing for the purchase of lot 13?

17 A No, sir.

18 MR. DINH: Let's go off the record for one
19 second.

20 (Discussion off the record.)

21 MR. JIAMPIETRO: On the record.

22 Mr. James, I want to end this questioning

1 for now and thank you for your efforts in answering.

2 Mr. Cole?

3 MR. DINH: But we will continue this
4 deposition.

5 MR. COLE: Just in light of the time
6 constraints, I do have one question that I would like
7 to ask relating to, while it is fresh in your mind,
8 Mr. James, the documents you have been shown and the
9 tax returns that you have been shown.

10 You prepared these tax returns, and these
11 accounting entries, and worksheets that we have shown
12 based on information that either you were provided by
13 Mr. and Mrs. McDougal, or that you had from your own
14 sources in connection with your work with Whitewater
15 Development Company?

16 THE WITNESS: That's correct.

17 MR. COLE: And what you did in these tax
18 returns and accounting entries is simply your best
19 professional judgment based on the information you
20 had available to you at the time?

21 THE WITNESS: Yes. And I would like to
22 state on the record that, if you will notice, that I

300

1 feel sure that by the time I had prepared this first
2 tax return that Mr. McDougal had already moved to
3 Kingston and I had gone into the automobile business.

4 So at this point I feel that this was done
5 on a long-distance basis, him sending me stuff, or me
6 trying to call or me getting information.

7 MR. COLE: And when you say "he," your
8 communications were with Mr. McDougal?

9 THE WITNESS: With Mr. McDougal, right.

10 MR. COLE: And you have no recollection of
11 discussing with either Governor Clinton or Mrs.
12 Clinton any of either the tax items or the accounting
13 entries that we have discussed here today?

14 THE WITNESS: No, sir, I didn't.

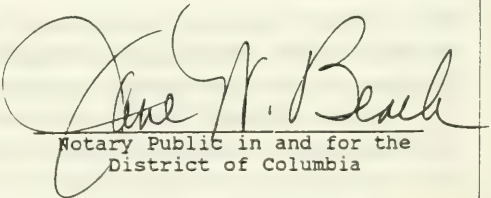
15 MR. COLE: That is all I have.

16 MR. DINH: Off the record.

17 (Whereupon, at 7:17 p.m., the deposition
18 was recessed, to reconvene at a mutually agreed time
19 and place.)
20
21

22 -----
CHARLES E. JAMES

I, JANE W. BEACH, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires NOVEMBER 14, 1996

**DEPOSITION OF GAINES B. NORTON, JR.
IN RE: S. RES. 120**

MONDAY, MAY 6, 1996

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SPECIAL COMMITTEE TO INVESTIGATE WHITEWATER
DEVELOPMENT CORPORATION AND RELATED MATTERS,
Washington, DC.

Deposition of GAINES B. NORTON, JR., called for examination pursuant to notice of deposition, at 1:05 p.m. in Room 534 of the Dirksen Senate Office Building, before BRENDA M. SMONSKEY, a Notary Public within and for the District of Columbia, when were present:

JOSEPH A. JIAMPIETRO, Esq.
Majority Counsel
MICHAEL P. O'CALLAGHAN, Esq.
Majority Associate Special Counsel
LANCE COLE, Esq.
Minority Deputy Special Counsel
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510
On behalf of the Committee.

PETER G. KUMPE, Esq.
Williams & Anderson
111 Center Street
Little Rock, Arkansas 72201
On behalf of the Deponent.

**ALSO PRESENT: STEVEN BANKLER
JOSEPH POTTER**

CONTENTS

WITNESS	EXAMINATION
Gaines B. Norton, Jr.	
by Mr. Jiampietro	7
by Mr. Cole	105
by Mr. Jiampietro	113
by Mr. Cole	114
by Mr. Jiampietro	115
by Mr. Cole	116
Errata	6256

P R O C E E D I N G S

1
2 MR. JIAMPIETRO: On the record. My name is
3 Joseph Jiampietro. I am Majority counsel to the
4 Committee on Banking, Housing and Urban Affairs of
5 the United States Senate. With me today to conduct
6 this deposition is Michael O'Callaghan, Majority
7 counsel to the Special Committee to investigate
8 Whitewater Development Corporation. Also with me
9 today is Steven Bankler, a consultant to the Special
10 Committee.

11 Representing the Minority is Lance Cole,
12 Minority counsel, and Joseph Potter, Minority staff.

13 I want to welcome you, Mr. Norton, today to
14 this deposition.

15 The deposition is being conducted pursuant
16 to Senate Resolution 120. This Resolution
17 establishes a Special Committee administered by the
18 Senate Banking Committee to conduct an investigation
19 into Whitewater Development Corporation, Madison
20 Guaranty Savings & Loan Association, and other
21 related matters. Section 1(b)(3)(A) of Resolution
22 120 authorizes investigation and public hearings into

4

1 "the operations, solvency, and regulation of Madison
2 Guaranty Savings & Loan Association and any
3 subsidiary, affiliate, or other entity owned or
4 controlled by Madison Guaranty Savings & Loan
5 Association."

6 Section 1(b)(3)(B) of Resolution 120
7 authorizes investigation and public hearings into
8 "the activities, investments and tax liability of
9 Whitewater Development Corporation and, as related to
10 Whitewater Development Corporation, of its officers,
11 directors and shareholders."

12 Section 1(b)(3)(D) of Resolution 120
13 authorizes investigation and public hearings into
14 "the handling by the RTC, the Office of Thrift
15 Supervision, the FDIC and the FSLIC of civil or
16 administrative actions against parties regarding
17 Madison Guaranty Savings & Loan Association."

18 These subjects will be the focus of today's
19 deposition. The deposition is conducted in advance
20 of public hearings which are currently ongoing. No
21 decision has been made as to who will be among the
22 witnesses at such hearings but we will notify you in

1 advance of any determination that you will be asked
2 to testify at hearing.

3 The stenographer will prepare a record of
4 questions and answers. Depositions will be treated
5 as committee confidential until the commencement of
6 hearings. Whole or part of such depositions may be
7 made public. Prior to the hearings, you will receive
8 a letter from the Committee telling you that you may
9 come to the Senate to review the transcript of your
10 deposition and make note of any corrections for
11 transcription on an errata sheet.

12 There is a limited purpose of this review,
13 and information should not be disclosed for other
14 reasons to the press or other witnesses.

15 MR. COLE: I would also note that, for
16 out-of-town witnesses, we have made arrangements to
17 make your transcript available to you in Little Rock
18 so you don't have to come back up here to Washington
19 to do that. We can arrange that in this case as
20 well.

21 MR. JIAMPIETRO: That is correct. We
22 discussed that off the record prior to starting the

1 deposition.

2 If you are called to testify at public
3 hearings, you will be provided with a copy of your
4 deposition transcript four days in advance of your
5 testimony, again for the limited purpose of preparing
6 yourself for testimony at the public hearings. You
7 may be represented by counsel. I note for the record
8 you are represented by counsel today.

9 You may want to state for the record your
10 name and affiliation.

11 MR. KUMPE: My name is Peter G. Kumpe, and
12 I practice law with the Little Rock law firm of
13 Williams & Anderson.

14 MR. JIAMPIETRO: Objections as to the form
15 of questions will be noted for the record. There are
16 two grounds upon which counsel may object and give an
17 instruction not to answer: privilege and scope. The
18 Committee Chairman will rule on objections where the
19 witness refuses to answer a question.

20 The court reporter can swear the witness at
21 this time.
22 Whereupon,

1 GAINES B. NORTON, JR.

2 was called as a witness and, having first been duly
3 sworn, was examined and testified as follows:

4 EXAMINATION

5 BY MR. JIAMPIETRO:

6 Q Welcome, Mr. Norton, and I hope we can get
7 this deposition done quickly and get you on your
8 airplane back to Little Rock as soon as possible.

9 Would you please state your name for the
10 record.

11
12 A Full name is Gaines B. Norton, Jr.
13
14
15

16 Q From the time of your notice of this
17 deposition, have you had any conversations with
18 anybody other than your attorneys and family members
19 about the substance or subject matter that you have
20 been asked to testify about today?

21 A No.

22 Q Have you been interviewed or questioned

8

1 under oath by any investigative agency or individual
2 about the substance or subject matter that you have
3 been asked to testify about today?

4 A No.

5 Q Will you please list for the record and
6 describe any degrees and professional organizations
7 that you may have or are associated with.

8 A I have a degree from Little Rock
9 University, BS in accounting. I am a CPA. 1970 I
10 think is when I got the certificate in the state of
11 Arkansas. I am a member of the Arkansas Society of
12 CPAs, the American Institute of CPAs. Degrees or
13 associations?

14 Q Degrees and associations. Do you have any
15 advanced degrees in accounting?

16 A No.

17 Q Are you certified as an accountant in any
18 other states?

19 A No.

20 Q Could you please give us a brief
21 description of your employment history from the time
22 you received your degree in accounting.

1 A I started with the IRS in Little Rock as a
2 revenue agent, actually started June of 1967, worked
3 there until October of 1969, when I went into public
4 accounting; first with a local firm, George Rector &
5 Company, for about a year. Then I went with a larger
6 local firm, Russell Brown & Company. In 1974, a firm
7 called Jack Frost & Company, now known as Frost &
8 Company, was formed. I went there until I retired
9 from public accounting on September 30, 1991.

10 Since then, since October 1 of '91, I have
11 been both an independent consultant and also have a
12 relationship with Stephens, Inc.; I am employed there
13 on a part-time basis.

14 Q Could you describe the work that you do for
15 Stephens, Inc.

16 MR. COLE: Before you answer that question,
17 Mr. Norton, there may be a question as to whether
18 work you do for Stephens, Inc. is within the scope of
19 what the Senate has authorized this committee to
20 investigate.

21 I think some general background inquiry is
22 appropriate. I don't feel you need to divulge

10

1 anything confidential about your work for Stephens at
2 this point.

3 THE WITNESS: It isn't confidential. I
4 went to work there April 1 of 1992 or '93? '93. And
5 I am -- I have a series 7 license and a series 63 and
6 I am also licensed to sell insurance, life and
7 disability. And I went there with the purpose in
8 mind of starting a division aimed at higher income
9 people, kind of a trust division. That never went
10 off.

11 So even though I am still technically
12 employed there, I really do not provide any services
13 for them anymore.

14 MR. COLE: That's fine. I didn't mean to
15 interrupt you. I think general background questions
16 are perfectly appropriate, but the inner workings of
17 Stephens, Inc. are one thing not in Senate Resolution
18 120.

19 BY MR. JIAMPIETRO:

20 Q I would like to go back to your employment
21 at Frost & Company. You noted that Frost & Company
22 was formed in 1974?

1 A Right.

2 Q Could you tell us how you came to work at
3 Frost & Company, give us more specific detail on
4 that.

5 A Okay. Jack Frost, S.U. Frost, Jr., who
6 formed Frost & Company, was a senior partner at
7 Russell Brown & Company. When he left, he asked
8 myself and three other people to go with him, and I
9 went with him at that point.

10 Q So you were with the firm from its
11 inception through September 30, 1991?

12 A That's right.

13 Q What type of clients did you represent
14 during your employment with Frost & Company?

15 A I was a tax person in the firm and handled
16 basically tax matters, and client responsibility, in
17 charge of -- what you would call an in-charge partner
18 who managed jobs, I did it basically from a tax
19 standpoint.

20 Types of clients? Industry types, poultry,
21 manufacturing, real estate. Other than that, just
22 general tax practice.

1 Q Who would determine your clients at the
2 firm?

3 A I never thought about it that way. I did.
4 The clients were either clients that I inherited,
5 because I was there from the beginning, that came
6 from Russell Brown & Company; or they were clients
7 that I went out and obtained, I had relationships
8 with and obtained.

9 Q Let me quickly ask you, you left Frost &
10 Company on September 30, 1991. That was your
11 decision to leave the firm?

12 A Yes, it was my decision.

13 Q When did you first meet William Clinton and
14 Hillary Rodham?

15 A I'm going to guess, probably 1978. That's
16 a guess, '78 or '79. It might help me if you tell me
17 which is the first tax return I prepared for them,
18 and I could give you a more accurate answer. It
19 wasn't long before that.

20 Q We will provide you with a copy of the
21 first tax return that we have in our records from
22 documents produced to us. I'm providing you with a

1 copy of the Clintons' 1978 federal income tax return,
2 Bates stamped LP 00656 through LP 00672.

3 A Really I wanted to know which year it was,
4 because it would have --

5 Q It is the 1978 --

6 A My memory is it was in late '78, before the
7 '78 return was prepared.

8 Q The top of the first page of the document
9 produced to us states "instructions for filing 1978
10 federal and state income tax returns and vouchers."
11 It lists Hillary Rodham and William J. Clinton. On
12 the third page of the document, it is signed Gaines
13 B. Norton, CPA.

14 A Okay. My memory is it was in late 1978. I
15 prepared their '78 return in early '79.

16 MR. JIAMPIETRO: Off the record.

17 (Discussion off the record.)

18 BY MR. JIAMPIETRO:

19 Q It is our understanding that a copy of the
20 Clintons' 1977 tax return was made public and that
21 your signature appeared on that return. Does this
22 refresh your memory as to when you may have started

1 preparing the Clintons' personal tax returns?

2 A Yes. If that's the first return I prepared
3 and signed for them, I would have met them late in
4 the year of the return, that that return covers. So,
5 if it was 1977, I met them late in 1977. If it was
6 an earlier year, it would have been an earlier year.
7 I have no memory.

8 Q Was your initial meeting with the Clintons
9 after a determination had been made that you would be
10 their personal accountant?

11 MR. KUMPE: I'm going to interpose an
12 objection as to form. It assumes -- and I don't know
13 what you mean by "personal accountant" -- but it
14 assumes that such a determination had been made. So
15 I object to the form.

16 MR. COLE: I would note -- and I want this
17 to go quickly and smoothly and I'm not trying to slow
18 things down here, but our jurisdiction really begins
19 with the Whitewater investment. I would caution the
20 witness to try to be responsive to Mr. Jiampietro's
21 questions but to recall that, in terms of the
22 Clintons' other financial interests or matters you

1 may have consulted him on, our jurisdiction begins
2 with the Whitewater investment.

3 MR. JIAMPIETRO: I think that is not
4 perfectly correct. I believe the jurisdiction of the
5 Committee reaches the Whitewater Development
6 Corporation. It is an investigation into the
7 handling of the investigation of Whitewater
8 Development Corporation by other official government
9 agencies. It also includes activities involved in
10 purchasing the land of Whitewater, which was
11 purchased a year previous to the formation of the
12 corporation. So I don't think that is perfectly
13 correct.

14 MR. COLE: I agree with that. When I said
15 "Whitewater," I did not mean the formation of the
16 corporation, I meant the purchase of the Whitewater
17 property. So the purchase of the property in 1978 is
18 when I think our story begins for purposes of this
19 deposition.

20 MR. JIAMPIETRO: I would also clarify that
21 I believe there are certain matters which may show a
22 prior course of action that led to the investment in

1 Whitewater which are also under the jurisdiction of
2 the Committee.

3 MR. COLE: I think those we will have to
4 take one at a time as they come up and see whether
5 the staff agrees, or whether it is necessary to have
6 it resolved outside of this deposition. Why don't we
7 go ahead. We have spent enough time on that.

8 BY MR. JIAMPIETRO:

9 Q Once again I will ask you: When was the
10 determination made that you would be the Clintons'
11 personal accountant?

12 A My memory is that the meeting where I met
13 them, when they came to my office, it was -- I don't
14 know. I think at that meeting it was already
15 understood I was going to be doing their work. I
16 don't remember what preceded that meeting. I mean,
17 it was a meeting to introduce myself and to meet them
18 and say yes, I will do your tax work.

19 Q Could you please describe the nature and
20 extent of the services you performed for the
21 Clintons.

22 A Preparing their personal tax return.

1 Q For what years did you prepare the
2 Clintons' personal tax returns?

3 A You will have to refresh my memory, but it
4 was about 1977 through '81 or '82. And I'm --

5 Q I will show you a number of documents that
6 will refresh your memory.

7 A Okay.

8 Q I will show you these documents, and take
9 as much time as you need to refresh your memory as to
10 each document. I'm going to show you documents Bates
11 stamped LP 00673 through LP 00689, which is the
12 Clintons' federal income tax return for the year
13 1980. Would you please confirm that you prepared
14 that document.

15 (Witness examined the document.)

16 A I did.

17 Q I will show you a copy of document Bates
18 stamped LP 00690 through LP 00695, the Clintons'
19 personal income tax return for 1981.

20 Would you confirm that you prepared that
21 document.

22 (Witness examined the document.)

1 A I did.

2 Q I will show you document Bates stamped LP
3 00696 there LP 00719, which contains the Clintons'
4 personal income tax return for 1982. Would you
5 confirm that you prepared that document.

6 (Witness examined the document.)

7 A I did.

8 Q I'm going to show you, finally, document
9 Bates stamped LP 00720 through LP 00739, which is the
10 Clintons' personal income tax return for the year
11 1983. Would you confirm that you prepared that
12 document.

13 (Witness examined the document.)

14 A I did.

15 Q You can keep those documents in front of
16 you. We will have specific questions relating to
17 each of them.

18 A I don't know that it is important, but the
19 '79 is missing. So is -- I prepared the 1977
20 through 1983 tax returns.

21 Q I'm going to show you document Bates
22 stamped DKRT 800002 through DKRT 800020, which is the

1 Clintons' personal income tax return for 1979. Would
2 you please confirm that you prepared that document.

3 (Witness examined the document.)

4 A Yes, I did.

5 Q While you were employed at Frost & Company,
6 what information would you normally gather from your
7 clients in order to prepare a tax return?

8 A It depends on the client. Every client is
9 different.

10 Q With regard to the Clintons' personal
11 income tax returns which you have before you, what
12 information would you normally gather from the
13 Clintons in order to prepare their tax return?

14 A My memory on it is that there was summary
15 information provided by both Mr. and Mrs. Clinton,
16 and my memory is also that they each provided
17 segments of it. Like he would have certain parts and
18 she would have certain parts, and then I would take
19 that information and merge it together to prepare the
20 return.

21 Q Did you use a formal questionnaire in
22 gathering the information from the Clintons?

20

1 A The firm had a formal questionnaire.
2 Depending on which period of time, there were
3 different questionnaires. They called them
4 organizers.

5 With the Clintons, no, I didn't, because
6 they never used the organizer. I would just review
7 the information they supplied me and ask them
8 questions if something was unclear.

9 Q Would the Clintons have supplied you with
10 canceled checks for you to prepare the personal tax
11 returns?

12 A You are going back a long ways. When you
13 ask -- I remember seeing summary documents prepared
14 by them, like a listing on a yellow pad. Whether I
15 actually saw canceled checks, I can't sit here and
16 tell you because I really don't remember.

17 Q Can you confirm that you signed each of the
18 Clintons' tax returns for the years that you prepared
19 their returns?

20 A I did confirm that; I did look at my
21 signature on each of those years and confirmed.

22 Q As a signatory of the return, doesn't that

1 mean that you are taking responsibility for the
2 return?

3 A Yes.

4 Q Would you have normally, in cases where you
5 were taking responsibility for the return, have
6 requested supporting documentation for documents,
7 summary documents provided to you to prepare personal
8 income tax returns?

9 A No.

10 Q I would like to clarify whether the
11 Clintons provided you with supporting documentation.
12 To the best of your knowledge, is it that they did
13 not provide supporting documentation in the form of
14 canceled checks, receipts and bank statements, or is
15 it that you just don't recall whether they provided
16 you with that information?

17 MR. COLE: Mr. Norton, I heard you testify
18 pretty clearly that you don't recall. Not recalling
19 is a perfectly acceptable answer in this context. If
20 you can recall, please tell us what you can recall.
21 If you can't recall, then I wouldn't guess or
22 speculate just because you are being asked the

1 question.

2 THE WITNESS: Your original question was
3 canceled checks, whether I looked at canceled
4 checks. The subsequent question was other
5 documentation.

6 Other documentation, in the form of 1099s,
7 W-2s and 1099s, comes in a variety of forms, whether
8 it be interest, dividends or whatever. Those
9 normally I would always ask for, to make sure that an
10 individual will be aware that they have a certain
11 kind of income and they will think it might be
12 dividend or interest income, but they don't know
13 unless you look at the documentation. You don't know
14 where to put it on the return.

15 I will amend that answer in that respect, I
16 do know I did that, that was my procedure to always
17 get W-2s, 1099s and reporting forms. I just have no
18 memory as to whether I ever looked at a check.

19 BY MR. JIAMPINETRO:

20 Q What I may do as we go along in this
21 deposition is show you documents. Some of those
22 documents will be bank statements, some will be

1 checks to refresh your memory. If you have no memory
2 of these documents, please state that for the
3 record.

4 MR. COLE: Do you have some document now,
5 though, that indicates that he did review checks?
6 Because if he can't remember and you have some
7 evidence that indicates that he did, I think the fair
8 thing to do is show that to him now so the record
9 won't be left with him relying on his memory when you
10 have some other information.

11 BY MR. JIAMPIETRO:

12 Q When I have a question that regards a
13 certain document, I certainly will show you the
14 document before I question you regarding that
15 document.

16 A Can I ask a question about that?

17 Q Of course.

18 A Are any of those old Frost & Company files
19 available? That would have shown what I had looked
20 at, if you want to know.

21 MR. COLE: You are saying it would help
22 your recollection to see the actual file, if one

1 still exists, that would have backed up these tax
2 returns?

3 MR. KUMPE: I will tell you, Mr. Norton,
4 that there are some files from Frost & Company that
5 were given to independent counsel in Little Rock. In
6 my work on behalf of Frost, with counsel for the
7 Special Committee, I understood they were going to
8 obtain that information directly from independent
9 counsel, but I don't know. And Frost & Company did
10 not retain copies.

11 So whatever files are available --

12 BY MR. JIAMPIETRO:

13 Q The Special Committee has received
14 documents through a number of different productions
15 from a number of different private and public
16 sources. The documents which we have gathered here
17 today and will use in your deposition come from
18 various sources. We will, to the best of our
19 ability, describe the document, show it to you and if
20 you have a memory of the document, then you can so
21 state. If you don't, you can also state that, and I
22 hope you would.

1 While you were employed at Frost & Company,
2 what was your record retention policy?

3 MR. KUMPE: Are you asking his personal
4 record retention policy or that of the firm?

5 MR. JIAMPIETRO: Let me rephrase the
6 question.

7 BY MR. JIAMPIETRO:

8 Q While you were employed at Frost & Company,
9 what was the general record retention policy of Frost
10 & Company?

11 A At some point while I was there, we
12 established the first record retention policy. I
13 don't remember what year that was. But the transfer
14 of files, the old files that had been moved out of
15 our current working files went to a storage location,
16 was real burdensome.

17 The first record retention policy we
18 established was to pass around a listing to all
19 partners and senior accountants of the files that
20 were in the transfer storage with a memo that stated
21 any tax files over 10 years old -- and I don't
22 remember on the audit files what it was, what the

26

1 policy was there -- any tax files that were 10 years
2 old would be thrown away, would be destroyed unless a
3 partner okayed keeping it longer.

4 Now, what the record retention policy is
5 other than that, I don't know.

6 Q Was your record retention policy the same
7 as the general record retention policy of Frost &
8 Company?

9 A It was.

10 Q To clarify, you stated that returns were
11 kept for at least 10 years unless a determination by
12 a partner was made to keep something longer; is that
13 correct?

14 A That's correct.

15 Q Under the Frost & Company record retention
16 policy, was supporting documentation also retained
17 for 10 years?

18 A Yes.

19 Q Unless, of course, a determination was made
20 by a partner that --

21 A To keep them all, that's right.

22 Q -- the records should be kept for a longer

1 period of time.

2 Did anyone assist you in preparing the
3 Clintons' personal income tax returns?

4 A Yes.

5 Q Could you please state for the record who
6 assisted you on the preparation of their returns. I
7 will rephrase that to make it a little more
8 specific.

9 Did anyone assist you on the substantive
10 matters of preparing the Clintons' personal income
11 tax returns? By that matter, I understand there may
12 have been clerical personnel or office personnel that
13 photocopied or received documents or phone calls.
14 I'm not interested in that type of personnel.

15 A I would have a staff accountant fill out
16 the forms based on the information provided to me
17 from the Clintons. Then I would review their work,
18 and it would be processed and I would sign it.

19 Now, as far as the specific people, I
20 remember Joe Selz helped me in some of the earlier
21 years particularly. I honestly don't remember any
22 other names.

1 Q Other than yourself, would anyone else have
2 reviewed the returns?

3 A No, other than for -- well, you mentioned
4 clerical, eliminating clerical. There would be a
5 math -- on the hand-prepared returns, there would
6 have been somebody math-checking it.

7 On the computer-prepared returns, there
8 would have been a person in charge of making sure the
9 return was right and the information was there. That
10 is more of a mechanical review.

11 Q I would like to follow up on one of the
12 questions I asked earlier regarding the retention
13 policy for supporting documentation. Specifically
14 related to the Clintons' personal income tax returns,
15 did you retain copies of the supporting documentation
16 used to prepare the Clintons' personal income tax
17 returns?

18 A The supporting documentation was maintained
19 in the same file as the tax return and the firm's
20 copy of the tax return was maintained in. And those
21 files were part of the general -- there was a point
22 in time early on where some of those files were

1 maintained separately, but then they were maintained
2 with the general -- at some point, we just decided to
3 maintain them with the general files of the firm.

4 Q Did you ever discuss tax planning or
5 investment planning with the Clintons?

6 A I remember one conversation dealing with
7 tax planning with Mr. Clinton.

8 Q Could you please describe that conversation
9 to us.

10 A Yes.

11 MR. COLE: Before he describes the
12 conversation, I suppose, Mr. Jiampietro, your theory
13 would be that it is within the scope of the
14 Resolution if it relates to the Whitewater
15 investment, and I wouldn't dispute that. But if it
16 was a conversation that has no bearing on the
17 Whitewater investment, then I'm not sure it is within
18 the scope of our resolution.

19 Maybe a first question would be was this a
20 conversation that occurred at a point in time when
21 the Clintons had an investment in Whitewater, just
22 for starters.

30

1 BY MR. JIAMPIETRO:

2 Q That's a question that I think you should
3 answer.

4 A Okay. My memory is that it was at the
5 beginning of the Whitewater investment. It is my
6 understanding that that's when it took place.

7 Q Would you please describe to us the
8 substance of that conversation.

9 A It had to do with their investment in
10 Whitewater. President Clinton asked me one day,
11 called me up and asked me to attend a meeting with
12 himself and Jim McDougal, and at this meeting there
13 was somebody else who I can't remember his name. My
14 memory is that he was a CPA. The purpose -- we met
15 at I believe Jim McDougal's office. And the purpose
16 of the meeting was for me to listen to an investment,
17 the Whitewater investment, to listen to the
18 description of it and what they planned to do
19 taxwise.

20 The investment was described to me as an
21 investment in land on the White River and that the
22 individuals, that Jim McDougal and Bill Clinton were

1 going to be partners in it, and it was going to be
2 owned by a corporation, and that there was going to
3 be no equity in it, it was all going to be borrowed
4 out. The full amount of the investment would be
5 represented by debt and that the form of the
6 investment would be a corporation, elect S
7 corporation status.

8 I asked if there were going to be any
9 start-up losses and Jim McDougal said there would be,
10 there would be some particular interest on the front
11 end until they got it developed. I asked what the
12 partners -- what the stockholders were going to use
13 as the tax basis for this loss, and this other
14 accountant or CPA that was there said that they were
15 going to use guaranteed debt as basis.

16 I told them my understanding of the tax law
17 was that the guaranteed debt didn't work as tax basis
18 in an S corporation, and they needed to relook at
19 that. And that was the end of the meeting.

20 Q Could you please state once again, just for
21 the record, who attended that meeting.

22 A Jim McDougal, Bill Clinton and another

1 gentleman who I remember to be an accountant, maybe a
2 CPA. I have no memory of his name. I don't know
3 that I could even identify him if I saw him today.

4 Q Does the name Charles James refresh your
5 memory as to the person there?

6 A No, it doesn't refresh my memory.

7 Q I would like to see if we can pin down the
8 time of this meeting.

9 A I have no memory of the timing on it.

10 Q Was the meeting prior to the incorporation
11 of Whitewater Development Corporation?

12 A I have no idea. I have never seen anything
13 on the incorporation of Whitewater.

14 Q The substance of the meeting covered the
15 process of incorporation; is that correct?

16 A Not that I know of. I mean, the substance
17 of the meeting was to describe the investment and to
18 say that the form of the investment would be in a
19 corporation and that the corporation would elect S
20 corporation status.

21 Q Was this meeting prior to any land purchase
22 that was contemplated?

1 A I have no idea. I have never seen any
2 documentation as to when it was purchased.

3 Q Based on your experience as a CPA, why
4 would a corporation choose S corp. status?

5 A There are a lot of reasons.

6 Q Were any of these reasons discussed at this
7 meeting that you attended?

8 A My memory is the one reason it was
9 discussed was that there would be start-up losses in
10 the development of the land project and that the
11 stockholders wished to take those start-up losses in
12 their individual returns.

13 Q Did you ever learn at a subsequent date of
14 problems arising with the decision to elect S corp.
15 status?

16 A My memory is that there was no S corp.
17 status elected. I mean, I know that because there
18 was no K-1, 1120SK-1 used in the preparing of their
19 returns. I could look at these returns and verify
20 that. That's my memory. So I don't know how to
21 answer your question about any problem.

22 Q You noted that guaranteed debt would be

1 used as the tax basis for the corporation, and you
2 also stated that you noted some problems with this.

3 Could you please explain, in greater detail
4 if possible, the problems you thought there were in
5 using this and describe in some greater detail their
6 plan of using this guaranteed debt as the basis.

7 MR. COLE: To make an already complicated
8 question more complicated, the only thing I would ask
9 is that the witness try to distinguish carefully
10 between what he was told by the participants at the
11 meeting, and what he may have assumed or concluded on
12 his own. In other words, separate what you knew or
13 what they said from what you guessed or thought they
14 may have been thinking, if you can do that.

15 THE WITNESS: Unfortunately, I'm not sure I
16 can. I can -- my memory of the meeting, again, and I
17 just have to restate this and maybe this answers the
18 question, is that the investment was described to me
19 and I don't remember whether it was Jim McDougal or
20 the accountant that was there said that the land was
21 going to be owned or would be owned in a corporation
22 and that the corporation would elect S corporate

1 status. They said the investment would be all
2 borrowed debt.

3 That's when I asked just the logical
4 question about it, because it concerned -- this
5 question concerned me; in the way I would prepare the
6 Clintons' tax return, would the Clintons have
7 sufficient tax basis in order to claim any loss that
8 would show up on an S corporation.

9 So I asked the question how would tax basis
10 be established. And the accountant said that it
11 would be established by using guaranteed debt. I
12 told them I thought there was a problem with
13 utilizing guaranteed debt, that I did not know any
14 law that allowed an S corporation to use guaranteed
15 debt for shareholder basis.

16 Any answer beyond that I think I am going
17 to start relying on my general knowledge of tax law
18 and S corporations, and I would be --

19 Q Since you have made the distinction, can
20 you expand on your discussion using your general
21 knowledge of why you may have thought there was a
22 problem?

36

1 MR. KUMPE: I'm going to object to the form
2 of the question, because when you use the term
3 "discussion," you are asking him to recite about
4 events which he said he does not remember.

5 MR. COLE: I think if you want to, for the
6 clarity of the record, ask him for a general
7 explanation of some of the accounting and tax issues
8 involved, that's fine, but I don't think it is
9 appropriate on the record to imply in any way that
10 that general description based on his general
11 knowledge reflects what occurred at the meeting.

12 I think unless we are careful here in the
13 way we build this record, it could be subject to
14 misinterpretation at some later time. Proceed as you
15 choose, but that would be my position.

16 MR. JIAMPIETRO: I certainly want the
17 record to read clearly and precisely.

18 BY MR. JIAMPIETRO:

19 Q Let me ask you some specific follow-up
20 questions to the meeting and then perhaps we will
21 move on to some broader questions regarding your
22 general knowledge of these accounting issues.

1 How actively did Bill Clinton participate
2 in the meeting?

3 A My memory is that he didn't participate in
4 the meeting, that he was listening.

5 Q Who was doing most of the talking during
6 the meeting?

7 A Jim McDougal.

8 Q Was there any discussion of what are
9 described as back-to-back loans or mirror loans being
10 used in the establishment of Whitewater Development
11 Corporation?

12 MR. COLE: Are you asking whether those
13 particular words were used, or are you asking him
14 whether he had an understanding whether something
15 that would fit that description was discussed?

16 MR. JIAMPIETRO: The latter.

17 MR. COLE: Let's be clear on that then.

18 BY MR. JIAMPIETRO:

19 Q Let me take you in a couple of steps on
20 this question. Perhaps it will be easier.

21 In your experience as a CPA, have you ever
22 had an experience with mirror loans or back-to-back

1 loans?

2 A To establish basis in an S corp. or just --

3 Q More generally in terms of establishing a
4 corporation or on transferring assets, personal
5 assets into a corporation.

6 A Yes, I have seen that used. If it is in
7 the same -- you are using the generic term, and that
8 is dangerous when you talk about technical areas.

9 MR. COLE: I think you should describe what
10 you understand him to mean by that term. Otherwise,
11 someone who reads this transcript later will not know
12 whether you two are talking about the same thing. I
13 think for clarity of the record, the witness should
14 state what he understands the term "mirror loans" or
15 "back-to-back loans," or each separately, means.

16 BY MR. JIAMPIETRO:

17 Q Please.

18 A All right. They are used in a lot of
19 different contexts in the tax law. Generally they
20 are used where a taxpayer has a transaction that
21 would either trigger income because of a basis issue,
22 like, for instance, when you incorporate a company,

1 if you have debt in excess of your tax basis and you
2 incorporate a company under section 351, you trigger
3 taxable income. That's one example I can think of.

4 So you create -- the corporation creates
5 debt in that situation where I guess -- I think it
6 would be where the individual would be loaning money
7 to the corporation to make up -- where you would use
8 debt to make up that difference in tax basis.

9 In an S corporation status, sometimes you
10 set a situation up where an individual borrows money
11 from a bank, any kind of lending institution or
12 individual, and then turns around and loans that
13 money to the corporation to establish S corporation
14 tax basis. That is a couple of situations.

15 Q In your experience, have you ever seen a
16 situation where individuals purchased property using
17 notes upon which they were personally liable, then
18 transferred that property to a corporation that was
19 subsequently formed, new notes then being issued to
20 the transferors of the property and the mortgage
21 moving with the property into the corporation?

22 A I have seen that transaction before.

1 Q Was that situation discussed at this
2 meeting?

3 A I have no memory of that situation. I
4 partly hesitate because I have seen it other places.
5 But I have no memory of discussing that in that
6 meeting.

7 Q Did you ever discuss such a situation with
8 Bill Clinton?

9 A Not to my memory.

10 Q Did you ever discuss such a situation with
11 Hillary Clinton?

12 A Not to my memory.

13 Q Did you ever discuss such a situation with
14 Jim McDougal?

15 A No, not to my memory.

16 Q Did you ever discuss this situation with
17 any accountant that was employed by Whitewater
18 Development Corporation, or by the Clintons, or by
19 the McDougals?

20 A Not in my memory, not to my memory.

21 Q You stated that you met with Bill Clinton
22 and Jim McDougal during this meeting and discussed

1 Whitewater Development Corporation. Did you have any
2 other meetings with either Jim McDougal, Susan
3 McDougal, Bill Clinton or Hillary Rodham at which
4 Whitewater Development Corporation, 101 River
5 Development, Incorporated was discussed?

6 A I never even heard of 101 River
7 Development, Incorporated. I never met Susan
8 McDougal. In my memory, the first and only time I
9 ever met Jim McDougal was at that meeting.

10 Whether I had any discussions with Bill or
11 Hillary Clinton, you know, part of this memory really
12 has to do with what I read in the papers, so I can't
13 really pinpoint any exact discussions. But I have
14 read in the papers that there was interest expense
15 taken on their individual returns that referred to
16 Whitewater.

17 Whether I ever discussed with them that
18 this interest expense, if it was on Whitewater or
19 Whitewater-related assets, I would have to guess I
20 did, but I really have no specific memory of those
21 transactions.

22 Q We will be reviewing some of those specific

1 transactions and specific entries on the Clintons'
2 personal income tax returns. When we discuss each of
3 those entries, perhaps it will refresh your memory.

4 A Okay.

5 Q Is it correct that the last personal income
6 tax return that you prepared for the Clintons was
7 their 1983 personal income tax return?

8 A I am going to have to rely on you-all that
9 that is -- the last return you gave me is the last
10 return I prepared. To the best of my memory, that's
11 in the right time frame.

12 Q How did your relationship with the Clintons
13 terminate?

14 A My memory on that is that the Clintons were
15 using an investment counselor, Bill Smith, and that
16 Bill Smith wanted to get a better overall handle on
17 their financial situation, including their tax
18 liability, and that he asked them -- I don't know
19 whether he prepared it or had somebody else prepare
20 it, but he asked that they move the preparation of
21 the tax returns from me.

22 Q Were any other reasons given for the

1 change?

2 A Not in my memory, no.

3 Q After you terminated your official
4 relationship with the Clintons, did you have any
5 further contacts with Bill Clinton or Hillary Rodham?

6 A Yes. I mean, from time to time I would run
7 into Hillary Rodham or Bill Clinton.

8 Q At any of these meetings, did you ever
9 discuss the Whitewater Development Corporation or the
10 Clintons' tax returns?

11 A No -- excuse me. One time Hillary Rodham
12 Clinton called me on the phone, and I think it was
13 during the Presidential campaign, and asked me if I
14 could dig up any old tax files, if I could find any.

15 My memory is I made an effort to find them,
16 and she called me back sometime later, and I said I
17 can't find them, I can't find any old files. But
18 that is the only one.

19 Q Did Hillary Clinton explain to you why she
20 was interested in receiving the old tax files?

21 A I don't remember what answer she gave me,
22 what she told me as a reason.

1 Q Did you ever come to meet or speak with
2 anyone else associated with the Clinton Presidential
3 campaign? Let me clarify for the record. With
4 regard to your work and had discussions with regard
5 to your work for the Clintons or how the Clintons
6 treated the Whitewater Development Corporation
7 investment.

8 A Limited to the Whitewater investment?

9 Q Limited to the Whitewater investment and
10 your preparation of their income tax returns.

11 A I had no discussions with anybody about the
12 Whitewater Development.

13 MR. COLE: I think if you had a discussion
14 with someone else from the campaign or representing
15 the Clintons about other financial matters of the
16 Clintons in the context of the campaign, you should
17 answer the question yes or no unless we can determine
18 that the subject matter of that discussion is somehow
19 within Senate Resolution 120, and if need be, we can
20 go item by item through it and ask you.

21 I don't think you should testify about it
22 until we have established that. I think the first

1 response should be a yes or no response.

2 THE WITNESS: The answer is yes, I have had
3 some contact with people during the campaign time --
4 whether they were with the campaign I don't know;
5 they were representing the Clintons -- to ask about
6 an item dealing with the preparation of the return.
7 It didn't have to do with Whitewater.

8 MR. COLE: Off the record for a minute.

9 (Discussion off the record.)

10 BY MR. JIAMPIETRO:

11 Q I would like to return to your phone call
12 with Hillary Clinton in which she requested any
13 records you may have retained regarding her personal
14 income tax returns. Did you ask her why she was
15 interested in getting the returns?

16 A I don't remember asking her.

17 Q Was anything else discussed in the
18 telephone conversation?

19 A No.

20 Q Were you surprised by the telephone
21 conversation?

22 A Not particularly.

46

1 Q Was it common for people to call six or
2 seven years after their relationship had terminated
3 with you and ask for files or records?

4 MR. COLE: Was it common for clients to be
5 running for President?

6 THE WITNESS: I have had clients ask for
7 old files before, or ex-clients ask for old files.
8 It is not an everyday occurrence, but --

9 BY MR. JIAMPIETRO:

10 Q I'm going to ask you if you had any
11 meetings or telephone conversations with a number of
12 people. You can state the answer just yes or no, and
13 then once we determine whether or not you had any
14 conversations, we can ask substantive questions.

15 Did you ever have a meeting or telephone
16 conversation with Jim Blair?

17 A Yes.

18 MR. COLE: You know, this is a little
19 complicated because I think at least we should say
20 did you have a discussion with these people that
21 pertained in some way to the Clintons. Because
22 Mr. Blair is an officer of a large corporation in

1 Arkansas, I would think it is very possible
2 Mr. Norton had discussions with him which had nothing
3 to do with this, which we are not getting into.

4 MR. JIAMPIETRO: Let me rephrase the
5 question.

6 BY MR. JIAMPIETRO:

7 Q Did you ever have a meeting or telephone
8 conversation with Jim Blair regarding the Clintons?

9 A No.

10 Q Did you ever have a meeting or telephone
11 conversation with Loretta Lynch regarding the
12 Clintons?

13 A No.

14 Q Did you ever have a meeting or telephone
15 conversation with Jim Lyons regarding Whitewater
16 Development Corporation or the Clintons?

17 A No.

18 Q Leslie Patten?

19 A No.

20 Q Norris Weiss?

21 A No.

22 Q Did you ever have a meeting or telephone

1 conversation with anyone from the Clinton
2 Presidential campaign regarding the Clintons or the
3 Whitewater Development Corporation?

4 A I don't know how to answer that. There are
5 two people I am thinking of. I don't know whether
6 they were with the campaign or not.

7 Q Would you please state who those people
8 are.

9 A Yoly Redden and David Kendall.

10 Q Did your meeting with David Kendall relate
11 to the Whitewater Development Corporation?

12 MR. COLE: Do we have it in the record that
13 it was a meeting?

14 BY MR. JIAMPIETRO:

15 Q Did you meet with David Kendall or have a
16 telephone conversation with him?

17 A Telephone.

18 Q Did your telephone conversation with David
19 Kendall have to do with the Whitewater Development
20 Corporation?

21 A No.

22 Q Did it have to do with the Clintons'

1 investment in the Whitewater Development Corporation?

2 A No.

3 Q Did it have to do with any tax liability
4 associated with the Clintons?

5 A Yes.

6 Q Was that tax liability related to
7 Whitewater Development Corporation?

8 MR. COLE: I'm a little confused --

9 MR. JIAMPIETRO: I think that is --

10 MR. COLE: -- theoretically anything on a
11 given year's tax return is related to anything else
12 on that tax return. So --

13 MR. JIAMPIETRO: That's a stretch. Come
14 on. I asked him did the conversation specifically
15 relate to tax liability regarding Whitewater
16 Development Corporation, and I think that is pretty
17 clear.

18 MR. COLE: That's fine, if you are telling
19 me that you don't mean -- I don't want to put him in
20 a position --

21 MR. JIAMPIETRO: I'm not saying to the
22 extent they had -- I'm saying to the extent that the

50

1 tax liability discussed related to the Whitewater
2 Development Corporation, I think it is clearly within
3 the scope of this investigation.

4 MR. COLE: I don't disagree with that.
5 Where I think you and I might differ -- and I don't
6 know whether we differ or not -- is that if there is
7 a given year's tax return that has deductions
8 relating to Whitewater Development Corporation, and
9 in that same year's tax return, there is income from
10 another source not related and the discussion he had
11 was about that other source, I would not say that is
12 related to Whitewater.

13 MR. JIAMPIETRO: Unless, of course, the
14 discussion of that other source of income was somehow
15 related back to the deduction taken for Whitewater.

16 MR. COLE: If that occurred, it would be a
17 discussion concerning Whitewater. All I'm trying to
18 do is clarify this because I think these questions
19 are more difficult for the witness to answer than
20 they are for you to ask.

21 MR. JIAMPIETRO: That's fine. So do I.

22 THE WITNESS: Can you repeat the question.

1 MR. JIAMPIETRO: Sure. Please read back
2 the question and then the response.

3 (The reporter read the record as requested.)

4 THE WITNESS: Not specifically. I'm
5 hedging my answer because what he said was true. On
6 any tax return, everything interrelates. The
7 questions he asked me were of a general nature about
8 a tax return year.

9 BY MR. JIAMPIETRO:

10 Q Let me ask you a specific question. Did
11 you discuss in that telephone conversation with David
12 Kendall whether or not the Whitewater investment was
13 being used as a tax shelter for activities by the
14 Clintons which were producing income for the
15 Clintons?

16 A I don't remember -- no. The answer is no.

17 Q Did the Whitewater Development Corporation
18 name come up at all in your conversation?

19 A I may be stretching when I say it did. I
20 think I remember a reference to it, but it wasn't
21 what he was calling me about. I think he made a
22 reference to it in like an oh, by the way.

1 Q I think that "oh, by the way" is something
2 that we would be interested in hearing. Please
3 explain it to us.

4 A In order to explain it, I almost have to
5 tell you why he was calling me.

6 Q I think if it is that close of a
7 relationship, we have -- Lance, this is my --

8 MR. COLE: It is not your resolution, and
9 we are bound by the scope. If the "oh, by the way"
10 was oh, by the way, I'm interested in this because
11 I'm representing the Clintons in an investigation of
12 Whitewater and this may spill over into Whitewater, I
13 think he should describe it without telling what the
14 other matter is. I don't know what was said.

15 All I'm saying is that there are issues of
16 careful interpretation here. I'm trying to be --

17 MR. JIAMPIETRO: I think we have been very
18 specific in asking the questions, and I think we have
19 now determined that the Whitewater Development
20 Corporation name was mentioned.

21 MR. COLE: That's all we have determined.

22 MR. JIAMPIETRO: We are trying to determine

1 in what context that was mentioned. I think our
2 scope, and we can read in the scope on this, is very
3 broad as it relates to the Whitewater Development
4 Corporation.

5 MR. COLE: If it relates to the Whitewater
6 Development Corporation, it is within the scope. The
7 witness answered the question twice saying it didn't
8 relate to Whitewater, and only through your
9 continuing to probe did you get out --

10 MR. KUMPE: Just say what you recall his
11 saying that included Whitewater, just what you
12 recall.

13 THE WITNESS: He had asked me to review
14 some documents. I reviewed those documents. He said
15 that "oh, by the way" to a review of those documents,
16 the Clintons have noticed that there were some
17 errors, or not the Clintons, but some accountants who
18 have pored over these tax returns I think under
19 Mr. Lyons -- but I'm not sure that he said that --
20 had noticed some errors in the return, and that the
21 Clintons have agreed to file -- not have agreed but
22 have filed an amended return and paid some additional

54

1 tax.

2 Somewhere in that conversation I think he
3 mentioned something about Whitewater being involved
4 in that or some sort of expense dealing with
5 Whitewater.

6 MR. COLE: When you say "in that," you mean
7 in the errors?

8 THE WITNESS: In the errors. Dealing with
9 a couple other areas, dealing with some unreported
10 income and unreported deduction. It was like an "oh,
11 by the way" follow-up. We actually had more than one
12 telephone conversation. It was either two or three.
13 I can't tell you exactly how many because I didn't
14 keep notes on it.

15 But the specific reason he was calling me
16 was just, it was unrelated to the Whitewater. It was
17 more of a general -- I don't --

18 BY MR. JIAMPIETRO:

19 Q How long did these phone conversations
20 last?

21 A 10 minutes each maybe, maybe five minutes.

22 Q Was anyone else involved in the telephone

1 conversations?

2 A No.

3 Q You noted that the errors that he mentioned
4 included unreported income. Was this unreported
5 income related to Whitewater Development Corporation?

6 A No, no.

7 Q You also noted that he mentioned improper
8 deductions -- let me rephrase that question.

9 Did he mention improper deductions?

10 A I don't remember that term being used.

11 Q But you do recall him mentioning unreported
12 income?

13 A Yes.

14 Q That did not relate to Whitewater?

15 A Did not relate to.

16 Q Was the amended tax return ever filed?

17 A I don't know. I never had anything to do
18 with it.

19 MR. COLE: I think that was very helpful
20 and I'm very happy to have you testify in as much
21 detail as you can recall as with regard to anything
22 which was said with regard to Whitewater. I

1 apologize with the difficulty for getting this on the
2 record, but when the Senate passed this resolution,
3 there was a great deal of negotiation between the
4 Majority and Minority as to what subject matters
5 would be included. And some things pertaining
6 directly or indirectly to the Clintons tax liability
7 were specifically excluded from the scope of this
8 investigation.

9 It is my job here today to make sure we
10 follow the mandate the Senators gave us in the
11 Resolution. That's all I'm trying to accomplish
12 here.

13 MR. JIAMPIETRO: I think it is important to
14 emphasize at this time, though, that the mandate
15 given to the Special Committee by the Senate in an
16 overwhelming vote was quite broad and not so
17 specifically related to the Whitewater Development
18 Corporation as Minority counsel would lead some of us
19 to believe.

20 I will just state for the record, in
21 addition to the activities, investments and tax
22 liability of Whitewater Development Corporation and

1 as related to Whitewater Development Corporation of
2 its officers, directors and shareholders, this
3 committee has jurisdiction over a number of other
4 areas, including the operation, solvency and
5 regulation of Madison Guaranty Savings & Loan
6 Association and any subsidiary, affiliate and any
7 other entity owned or controlled by Madison Savings &
8 Loan.

9 It also has jurisdiction over the handling
10 by the RTC, the Office of Thrift Supervision, the
11 FDIC, FSLIC of civil or administrative actions of
12 parties regarding Madison Guaranty Savings & Loan
13 Association. A number of those activities occurred
14 prior to the purchase of Whitewater and purchase of
15 this land. Our jurisdiction reaches those matters.

16 In some cases the investigation included
17 questioning of the Clintons and other persons related
18 to Whitewater and Madison Guaranty and the
19 investigations of that corporation and that bank and
20 savings and loan association.

21 We have a very broad jurisdiction here, and
22 I think I need to be very clear that it is not just

1 Whitewater Development Corporation that this
2 Committee is investigating. If anything -- when I
3 ask you a general question on these matters, we have
4 broad jurisdiction.

5 For instance, your response to my question
6 regarding the telephone conversation with David
7 Kendall, I think that is clearly -- there is not even
8 a question that that is within the scope. I think
9 you are right to tell us that. I will state for the
10 record that you were cooperative and did tell us
11 that. But I don't want you to get the wrong
12 impression from the statements being made by Minority
13 counsel here that our jurisdiction is strictly
14 limited.

15 If, for instance, discussions were held
16 that Whitewater was being used as a tax shelter for
17 commodities gains, that is something that is within
18 the scope of the Committee's jurisdiction, clearly
19 within the scope of the Committee's jurisdiction. I
20 don't want there to be any confusion that just
21 because something not related specifically to
22 Whitewater was discussed that it is not within the

1 scope of the jurisdiction of this committee.

2 THE WITNESS: I don't want to be the one to
3 judge whether the answer to my question --

4 MR. COLE: You don't have to be. The only
5 thing you have to do, which you have been doing, is
6 be patient while we work these things out. I agree
7 with Mr. Jiampietro that the Committee's mandate is
8 very broad. I don't disagree with his
9 characterization concerning Whitewater.

10 What I was referring to was where the
11 Resolution as adopted by the Senate has specific
12 language where it says "the activities, investments
13 and tax liability of Whitewater Development
14 Corporation and, as related to Whitewater Development
15 Corporation, of its officers, directors and
16 shareholders."

17 Mr. Jiampietro may not have been involved
18 at the time, but I was when this was drafted. I know
19 that language was put in there specifically to make
20 clear that the Committee can investigate the tax
21 liabilities of the officers, directors and
22 shareholders of Whitewater, which includes the

1 Clintons, only as that relates to Whitewater
2 Development Corporation.

3 He and I don't disagree. If Whitewater was
4 part of a tax strategy that involved other things,
5 then that is within the scope. But things that have
6 no relation to Whitewater are not within the scope.
7 That's where he and I may have to work it through.

8 MR. JIAMPJETRO: I just have to state in
9 response to that -- and I appreciate your patience --
10 that a prior course of dealings between the McDougals
11 and Clintons is clearly within the jurisdiction of
12 this committee. There have been representations made
13 that the investment in Whitewater was made because of
14 earlier successes on transactions involving
15 Mr. Clinton and Mr. McDougal.

16 I have discussed with the Chairman the
17 relevancy of these transactions, and that --

18 MR. COLE: That misstates the record. I
19 cannot sit still while you mischaracterize the record
20 of this investigation. There has only been testimony
21 of one prior transaction between the McDougals and
22 the Clintons, and if you want to argue that that is a

1 pattern somehow related to Whitewater, you have the
2 opportunity to do that. But at least for accuracy's
3 sake, if you are going to state your position, don't
4 mischaracterize or misstate what the record is.

5 There is only one prior transaction.

6 MR. KUMPE: Gentlemen, may I just state
7 that Mr. Norton is here after several attempts at
8 scheduling and he is here under the express assurance
9 that his deposition can be completed this afternoon
10 because he has a very important meeting first thing
11 in the morning in Little Rock, Arkansas, and the
12 discussions that you gentlemen are having are
13 delaying the completion of this deposition.

14 Based upon my knowledge of this witness's
15 knowledge, I think it is all moot. Let's go on and
16 get the information that this witness has on the
17 record.

18 MR. JIAMPIETRO: I think you will be
19 surprised at the objections that you may hear as we
20 move forward in our discussions. I think that the
21 preparation of this debate has been laid very
22 carefully by Minority counsel. But let's move on.

1 BY MR. JIAMPIETRO:

2 Q I would like to direct your attention to
3 the 1978 Clinton tax return.

4 A I have it.

5 Q I would specifically like to refer you to
6 page 659, which is schedule A, itemized deductions.

7 A I'm there.

8 Q Line 19 --

9 A I see it.

10 Q -- bears an entry for Great Southern Land
11 Company in the amount of \$10,131.

12 A I see it.

13 Q How did you know to deduct this amount paid
14 to Great Southern Land Company as interest?

15 A It would have been information supplied to
16 me by the Clintons.

17 Q I would like to show you a copy of a report
18 that has been referred to numerous times by Minority
19 counsel and others.

20 MR. COLE: Not in this deposition, I don't
21 believe.

22 BY MR. JIAMPIETRO:

1 Q The document is a report, a preliminary
2 report to the Resolution Trust Corporation on Madison
3 Guaranty Savings & Loan and Whitewater Development
4 Company Inc. dated April 24, 1995, prepared by
5 Pillsbury, Madison & Sutro of San Francisco,
6 California. I will refer you to some pages in this
7 and read you the entries, and then ask you some
8 specific questions about those entries.

9 I would like you to refer to page 28 of the
10 report which is Bates stamped Senate WW report 0035.

11 A I see it.

12 Q I'm going to read the last paragraph of
13 that on this page and a footnote.

14 The paragraph reads "in addition to this
15 \$26,393, Whitewater's general ledger credited Great
16 Southern Land Company and the Clintons with another
17 \$20,260 consisting of \$10,130 each for payments made
18 personally to fund debt service. The Clintons paid
19 their portion by a personal check dated December 28,
20 1978 for \$10,130.58 made out to Great Southern Land
21 Company. Great Southern Land Company contributed a
22 like sum. The \$20,260 approximately covered the

64

1 interest payments made on a mortgage loan and the
2 earnest money loan between November 1978 and August
3 1979."

4 The footnote numbered 122 reads "because
5 they paid the money to Great Southern Land Company in
6 1978, the Clintons claimed the entire amount as an
7 interest deduction on their 1978 income tax return,
8 even though the interest on the Whitewater debt was
9 only partially due in 1978. The press reports that
10 tax experts differ as to whether this deduction was
11 allowable."

12 I would like to ask you a number of
13 questions. First, were you aware of these facts at
14 the time you prepared the Clintons' 1978 income tax
15 return?

16 A No.

17 Q If you had had these facts, would you have
18 treated this transaction differently?

19 A I don't know. I don't know that I
20 understand the transaction from what you have read.

21 Q Let's see if we can clarify it. According
22 to the Pillsbury, Madison report, the Clintons paid

1 \$10,131 approximately to Great Southern Land Company
2 in -- the check is dated December 28, 1978. And I
3 have a copy of the check which I can show you. It
4 might refresh your memory.

5 I'm showing the witness document Bates
6 stamped LP 00523, the first check listed on this
7 document is a check by Bill Clinton or Hillary Rodham
8 Clinton to Great Southern Land Company in the amount
9 of \$10,130.58 made on the Union National Bank of
10 Little Rock, Arkansas, signed Hillary Rodham, and it
11 states "reimbursement of six months' interest."

12 According to the Pillsbury, Madison report,
13 this amount reimbursed Great Southern Land Company
14 for more than six months' interest, approximately 10
15 months' interest. And a good portion of that
16 interest due was due in 1979 instead of 1978.

17 I'm just wondering whether, if you had
18 known these facts at the time of preparing the income
19 tax return, you may have done something differently.

20 A I mean, yes, sir. Based on what -- I'm
21 assuming these facts are all right. Based on that
22 assumption, yes, that all would not be interest

1 deductible on the 1978 tax return.

2 MR. COLE: Just so we are clear, why do you
3 come to that conclusion?

4 THE WITNESS: Prepaid interest isn't
5 deductible. You deduct interest in the year it is
6 due or paid and due. You can deduct old interest but
7 you can't deduct prepaid interest.

8 MR. COLE: Based on the information here as
9 to the timing, that's your conclusion?

10 THE WITNESS: The timing, yes. Also it
11 says -- it said it approximately covered interest
12 payments. I wonder what the difference is when I
13 read that statement.

14 MR. COLE: Can you read what the "for"
15 notation on the check says?

16 THE WITNESS: The question was stated what
17 that says, "reimbursement of six months interest."

18 MR. COLE: But it doesn't specify year or
19 time period, other than just saying "six months"?

20 THE WITNESS: It doesn't specify, no.

21 MR. JIAMPIETRO: Except that this
22 Pillsbury, Madison report does specify that the

1 interest payments that were paid into Whitewater,
2 which included this check, covered the interest
3 payments due between November 1978 and August 1979,
4 which is a period of time I believe which is --

5 MR. COLE: That's fine. I'm not disputing
6 that. You can't tell that from the underlying
7 documents.

8 Mr. Norton, do you think you would have
9 seen anything other than this check at the time?

10 THE WITNESS: I'm not sure I saw that
11 check.

12 MR. COLE: I'm trying to distinguish what
13 Pillsbury, Madison may have determined through their
14 investigation and what you knew at the time.

15 BY MR. JIAMPIETRO:

16 Q If the Clintons didn't owe Great Southern
17 Land Company money but were merely making a payment
18 to Great Southern Land Company, and Great Southern
19 Land Company then made the interest payment, would
20 that have made a difference in your treatment?

21 A Yes.

22 Q How would that have --

1 A If the Clintons weren't liable on the debt,
2 then they would not have an interest deduction. You
3 only deduct interest on payments which you are
4 liable -- for debt you are liable on.

5 Q If the Clintons had a debt to Great
6 Southern Land Company and paid that money to Great
7 Southern Land Company and Great Southern Land Company
8 then used that money for whatever, for paying
9 interest, that would not have been deductible to the
10 Clintons?

11 A I'm not sure -- if the Clintons had a debt
12 to Great Southern Land Company and they were paying
13 interest on that debt to Great Southern Land Company,
14 then they would have an interest deduction. The
15 Clintons would have an interest deduction.

16 Q Let me clarify once again. If there was a
17 note between Great Southern Land Company and the
18 Clintons -- let me correct that.

19 If there was no note between Great Southern
20 Land Company and the Clintons, and the Clintons made
21 this payment to Great Southern Land Company, is this
22 amount deductible?

1 A No.

2 MR. COLE: Just so we are clear, your
3 testimony is that the allowability of the deduction
4 turns on whether or not there is a formal note
5 executed, not whether in fact there was a debt?

6 THE WITNESS: You don't have to have a
7 formal obligation to create a debt. You can have an
8 informal one. It doesn't have to be a written note.

9 MR. COLE: When they say there is not a
10 note, it is not clear to me whether you understood
11 that question to be if there is not a debt or whether
12 if there is not a written note agreement. I am
13 sincerely confused on this, I'm not following the
14 testimony.

15 THE WITNESS: I understood -- there has to
16 be a debt from the payor of the interest to the
17 recipient of the interest. Whether that debt is
18 formalized in a note is not important. It is whether
19 there is actually a debt, and interest is forbearance
20 of money.

21 MR. COLE: That's consistent with my
22 understanding. I think one may interpret your prior

70

1 answer differently.

2 THE WITNESS: I'm with you.

3 MR. KUMPE: You misspoke. You said there
4 has to be a note.

5 THE WITNESS: There does not have to be
6 one.

7 MR. COLE: There has to be a debt.

8 BY MR. JIAMPIETRO:

9 Q I would like to move on to another entry on
10 the '78 return. Just so you know, I have about three
11 or four points. We will get you out of here in time
12 for your plane.

13 MR. COLE: The question is will I have an
14 opportunity to ask questions, which has something to
15 do with the reason I interject here, because I know
16 that the Minority goes after the Majority, so I have
17 to take my opportunities when I can.

18 MR. JIAMPIETRO: I think the record will
19 show I have been giving Minority counsel ample
20 opportunity to offer questions.

21 MR. COLE: I'm just noting it for the
22 record, not complaining about it.

1 BY MR. JIAMPIETRO:

2 Q I would like you to refer to several
3 schedules attached to the 1978 return. Schedule D,
4 capital gains or losses, page LP 00663 --

5 A I have it.

6 Q -- part 2, line 6.

7 A Yes.

8 Q Could you please describe the schedule and
9 tell us what it is doing.

10 A The schedule is reporting long-term -- in
11 this case long-term gain from sale of assets, assets
12 held more than a year and sold by the Clintons.

13 Q Did you prepare the schedules?

14 A Yes.

15 Q Could you explain each entry listed because
16 you are an accountant and I'm not and I'm sure to
17 misstate what it is doing.

18 A The first line says "installment sales, see
19 collection," and reports a gain of \$788. The second
20 line says "installment sale, collect," whatever that
21 means, and reports a gain of \$98. The third line
22 says "five acres -- land," and apparently this was a

72

1 sale of five acres of land that they purchased, that
2 the Clintons purchased January 25, 1977 and sold May
3 17, 1978 for \$5000, gross sales price, with a cost of
4 \$2850 and a gain of \$2150.

5 The first, in the explanation of the first
6 two items, it would have been on an installment sale,
7 you report, taxpayer reports the gain as a collect
8 the principal on the sale, and this would have been
9 the portion of the gain applicable to the principal
10 received in 1978.

11 Q So this schedule shows two transactions?

12 A I can't answer whether it is two or three.
13 It says three transactions.

14 Q Let me correct, for the record, the first
15 line, I think, reads "installment sale, see
16 schedule," not "see collection" on it, just for the
17 record.

18 There is another attachment, the last page
19 of the return, Bates stamped LP 00672. It states at
20 the top "Bill Clinton," and I believe it shows his
21 Social Security number. And under that, it states in
22 type "installment gain on sale," the description of

1 the property as "15 acres unimproved land." It
2 states that this land was acquired on January 25,
3 1977 and sold on July 23, 1978.

4 Did you prepare this schedule?

5 A That's not my handwriting. I don't know
6 whether I prepared it or somebody else. That's not
7 my handwriting. I didn't prepare it.

8 Q Have you seen this schedule before?

9 A Not since the return was prepared, but I
10 have seen it.

11 Q Would you say that this schedule is the
12 supporting documentation for the entries listed in
13 Schedule D, part 6 where it says "installment sale,
14 see schedule"?

15 A It appears to be the support for the first
16 two entries on part 2, line 6. The total gain -- the
17 gain on this schedule applicable to 1978 is \$886. If
18 you add Schedule D, the first two entries together,
19 that is \$886.

20 Q I would like to ask you, that line that you
21 were reading from on the schedule describing the
22 15-acre land transaction states that a deferred

1 balance of gain of \$5549 was reported. What would
2 have happened with that money?

3 A As the principal was collected in the
4 future on this sale, that gain would have been
5 reported, based on 42.9 percent of each principal
6 payment, would have been gain.

7 Q Do you recall any conversations with the
8 Clintons regarding these schedules?

9 A No.

10 Q Can you identify the handwriting on the
11 schedule?

12 A I really can't.

13 Q Can you review the other returns, Schedule
14 D on the other returns to see if this income was
15 picked up, this 5549 was picked up at all?

16 A Yes.

17 Q As you review each return, if you could
18 just state for the record whether or not the return
19 shows any income being reported from this installment
20 sale. I would appreciate it.

21 A 1980, the next -- wait, wait. I skipped a
22 year. 1979 --

1 MR. COLE: Off the record while the witness
2 looks at those.

3 (Pause.)

4 (Discussion off the record.)

5 BY MR. JIAMPIETRO:

6 Q Please respond to the last question.

7 A On each tax return, there was an
8 installment sale reported in 1978. In 1979 there is
9 no income on Schedule D which reflects income from
10 installment sale. In 1981, I don't know, because
11 this is an incomplete tax return.

12 I do know that there was, on line 12 of the
13 1040 which summarizes the Schedule D, there is a gain
14 of \$1145 reported. I have no idea what the detail of
15 that gain is since the Schedule D is not with the
16 return I'm looking at.

17 I skipped 1980. And 1980, which I just
18 skipped, reports \$335 of principal times 42.9 percent
19 gross profit percentage for a gain of \$144 from an
20 installment sale.

21 There is no installment sale gain reported
22 on the 1982 or '83 tax returns.

76

1 Q So the amount that you can see reported,
2 that you can detail or relate back specifically to
3 the schedule we showed you in the 1978 return is the
4 \$144 reported in the 1980 return?

5 A I know that was reported in 1980. I don't
6 know what if anything was reported in 1980 on the
7 return. I know there is a gain.

8 MR. JIAMPIETRO: Off the record.

9 (Discussion off the record.)

10 BY MR. JIAMPIETRO:

11 Q The Special Committee, Majority staff of
12 the Special Committee have obtained a copy of the
13 1981 tax returns which we believe were made public by
14 the Clintons during the Clinton Presidential
15 campaign. We obtained this return from The Wall
16 Street Journal, and they obtained the return from the
17 Clintons when these returns were made public during
18 the Clinton Presidential campaign.

19 I would like to show the witness a copy of
20 the return.

21 MR. COLE: These are not documents,
22 Mr. Norton, that were obtained by the Special

1 Committee through its normal process of collecting
2 documents, sending out subpoenas or document
3 requests. I have no idea as to whether or not these
4 are authentic documents, whether they are accurate
5 other than Mr. Jiampietro's representations.

6 I have no knowledge as to the source of
7 them. I have to rely on his representation that
8 these are public documents that the Clintons have
9 released. I just want you to know that as you review
10 them.

11 BY MR. JIAMPIETRO:

12 Q Mr. Norton, would you please, for the
13 record, review the return and state for the record
14 whether or not it appears authentic to you. You can
15 also compare the return with the pages that have been
16 produced to the Committee, and let us know what
17 you --

18 A I have already briefly compared the return
19 with the four or five pages that you gave me from the
20 1981 return.

21 MR. COLE: Just so we are clear on the
22 record, Mr. Jiampietro, these documents were obtained

78

1 from The Wall Street Journal?

2 MR. JIAMPIETRO: As represented to the
3 Committee, they were obtained by The Wall Street
4 Journal from the Clinton Presidential campaign and
5 were given to the staff members of the Special
6 Committee.

7 MR. COLE: So the staff of the Special
8 Committee is working with The Wall Street Journal to
9 gather documents?

10 MR. JIAMPIETRO: I think that is an
11 absolutely improper way to describe the situation.
12 The staff of the Committee is in every way possible
13 trying to get as complete a record as possible on
14 this investigation. We noticed, in going through the
15 documents delivered to the Committee and produced to
16 the Committee, that only a partial copy of the 1981
17 tax return was produced to the Committee. In its
18 endeavor to find a complete copy of this report, the
19 Committee reached out to whatever source possible and
20 found a copy of the tax return.

21 I would like to state for the record that
22 Majority counsel called Minority counsel on the

1 morning of the deposition --

2 MR. COLE: That would be today, when I had
3 never heard of these documents, nor seen them before
4 today.

5 MR. JIAMPIETRO: And notified Minority
6 counsel that the Majority counsel had received this
7 document and was willing to transmit it to Minority
8 counsel. Minority counsel said that they would
9 return the phone call and did return the phone call,
10 and a conversation was held on this matter.

11 MR. COLE: Just for completeness, in that
12 conversation, which was about 30 minutes before this
13 deposition began, I indicated that since I knew
14 nothing of the source of these documents, had never
15 seen them before, that I wasn't in a position to
16 vouch for them for the witness.

17 My question was only how The Wall Street
18 Journal happened to be giving documents to the
19 staff. I am curious because they haven't called me,
20 obviously.

21 MR. JIAMPIETRO: Let's move on and get the
22 witness to answer the question.

80

1 BY MR. JIAMPIETRO:

2 Q Can you authenticate this document?

3 A I quickly reviewed this tax return. It
4 appears to be complete.

5 Q Did you prepare the return?

6 A My signature is on it. I did prepare it.

7 Q Do you find any errors in the return? Does
8 it look like it has been doctored?

9 A I didn't find any errors as I looked
10 through it. It is 20 pages long or so.

11 Q Can you return to the schedule we have been
12 reviewing.

13 A Schedule D.

14 Q Did you prepare this schedule?

15 A Well, that handwriting isn't mine. But it
16 would have been prepared under my direction.

17 Q Could you please review the schedule and
18 let us know whether or not any income from the
19 installment sale we have been discussing is reported
20 on the schedule.

21 A There is no income reported from the
22 installment, from the 1978 installment sale.

1 Q To summarize, in reviewing the Clintons'
2 personal tax returns for the years 1979 through 1983,
3 only \$144 of the \$5549 in future taxable income that
4 was deferred has been picked up; is that correct?

5 A That's correct.

6 MR. JIAMPIETRO: No further questions.

7 MR. COLE: May I ask a clarifying question
8 about this subject matter?

9 For an installment sale of the type that is
10 recorded on this schedule that you testified to in
11 the last few minutes, income would be reported in
12 subsequent tax years only if in fact payments were
13 made by the purchaser; is that correct?

14 THE WITNESS: That's correct.

15 MR. COLE: Do you have any way of knowing
16 from looking at these documents whether or not
17 payments were made?

18 THE WITNESS: No, I don't.

19 MR. COLE: So you can only state what is
20 recorded here and you can't state whether or not
21 payments were made on this installment sale?

22 THE WITNESS: That's correct.

82

1 MR. COLE: Final question. Do you have any
2 reason to believe that this particular transaction
3 reported here had anything to do with the Whitewater
4 investment?

5 THE WITNESS: I don't know what the
6 transaction is other than what it states in the
7 service as the sale of land.

8 MR. COLE: Is there anything in the
9 documents that are here that would indicate it
10 relates to the Whitewater investment?

11 THE WITNESS: No.

12 MR. JIAMPIETRO: I have one further
13 question.

14 BY MR. JIAMPIETRO:

15 Q If in fact the Clintons did not receive
16 payments on this installment sale, would you have
17 made any adjustments on the returns to show that?

18 A No.

19 Q If they had received no income, wouldn't
20 you have had to go back and lower the gain that was
21 reported initially on the '78 return?

22 A I don't know.

1 Q Let's move on. Let's turn to Bates stamp
2 DKRT 80009, the '79 tax return.

3 A Mine doesn't have a date stamp on it.

4 Q It is underneath.

5 A Mine still doesn't have a date stamp on
6 it.

7 Q It has a Bates stamp. It is on the
8 right-hand side.

9 A Oh.

10 Q If you could look at line under "interest
11 expense," line 8, 19. Did you prepare this schedule?

12 A That's not my handwriting, no.

13 Q Was this schedule prepared under your
14 direction?

15 A Yes.

16 Q Could you read the first two lines on that
17 line 19?

18 A I think that says "bank and loan companies,
19 \$11,749." The next one is "James McDougal, \$238," I
20 believe. That copy is a little hard to read.

21 Q Regarding that \$11,749, what supporting
22 documentation would you have reviewed for that entry?

84

1 A Whatever the Clintons had, whatever the
2 Clintons gave me, which as I have stated earlier was,
3 my memory is it was a handwritten list by them.

4 Q What would that list have stated? Could
5 you briefly describe it for us.

6 A It probably would have stated exactly what
7 is on here, bank and loan companies.

8 Q You wouldn't have reviewed any supporting
9 documentation, or it would not have been provided to
10 you?

11 A No.

12 MR. COLE: Do you have a specific
13 recollection with regard to this tax return and this
14 entry that that's what occurred, Mr. Norton, or are
15 you testifying as to your general practice over five
16 or six years of preparing these returns and
17 speculating that's what may have occurred in this
18 instance?

19 THE WITNESS: I have no specific memory of
20 this item. My answer was based on my general
21 practice in dealing with Mr. and Mrs. Clinton.

22 BY MR. JIAMPIETRO:

1 Q I would like to refer you to the Pillsbury,
2 Madison report that I referred to earlier. I would
3 like to read a brief statement from the report, page
4 number 29, Senate WW report 0036.

5 "In 1979 the Clintons paid other expenses
6 and made a capital contribution to the company. On
7 December 7, 1979 the Clintons disbursed \$2900 to
8 Whitewater. Of this amount \$2400 was an advance for
9 an obligation on the part of the company to repay the
10 Clintons and \$500 was designated to be the Clintons'
11 contribution to the company's paid-in capital."

12 The footnote to that sentence states,
13 footnote number 123, "this advance was not used for
14 the payment of interest as Whitewater made its first
15 payment to a bank in May 1980."

16 Reading from the main text again, "the
17 Clintons made other payments for the benefit of
18 Whitewater totaling \$9590.02 to the banks. These
19 include one check for \$4599.64 on November 5, 1979;
20 and two checks totaling \$4990.38 on December 29,
21 1979, one for \$4752.88 and another for \$237.50.
22 These payments are summarized in the report prepared

86

1 for the Clintons by James M. Lyons dated March 18,
2 1992."

3 I would like to refer you to several points
4 on this. The amounts listed, the \$2900 payment,
5 including the \$2400 advance and the \$500 paid in
6 capital added to the individual checks listed amount
7 to the \$11,749 listed on the '79 return.

8 (Witness examined the document.)

9 A Not according to my math.

10 Q Could you please -- let me use my
11 calculator.

12 A The 2900 plus the 9590?

13 Q Plus the 237. The 2400 plus the 9590.02.

14 A Plus the 237?

15 Q I think the 237 is included in the
16 9590.02.

17 A This includes one check --

18 (Witness examined the document.)

19 According to this, you just add the -- the
20 way I read the paragraph -- you add the 2900 and the
21 9590. That's \$12,490.

22 MR. COLE: We have two CPAs and three

1 lawyers here and we can't figure this out. It is
2 hard to figure out how someone might have made a
3 mistake on this.

4 BY MR. JIAMPIETRO:

5 Q Footnote number 124 explains how these
6 above transactions can be reconciled to the Clintons'
7 1979 personal tax returns. It states "in the
8 aggregate, these amounts can be reconciled to the
9 Clintons' 1979 personal tax returns by adding in the
10 \$2400 advance to Whitewater."

11 This footnote is in the sentence
12 referencing the payments which add up to \$9590.02.

13 A What footnote is that?

14 Q Footnote number 124, the last sentence.

15 A I got you.

16 Q Were you aware of these facts at the time
17 you prepared this return?

18 A No.

19 Q If you had these facts, would you have
20 treated this transaction differently? Let's go step
21 by step. The \$2400 advance to the Clintons --
22 advance from the Clintons to Whitewater, a loan to

1 Whitewater, according to the Pillsbury report, was
2 included in the 1979 itemized deductions.

3 Based on this statement, if that was a loan
4 from the Clintons to Whitewater, would that have been
5 a proper deduction?

6 A No. Can I just make a statement?

7 Q Certainly.

8 A Somebody has gone through here and taken --
9 and we are laughing about it, but they have taken a
10 series of numbers and added two numbers and
11 subtracted two numbers and came up with a number that
12 is within 3 to \$4, depending on how you round, of
13 another number on a tax return and saying they are
14 the same.

15 If you want me to answer that, that that's
16 the same amount and answer your questions based on
17 that assumption, I will do it, but I'm bothered by
18 it.

19 Q Let me just for the record state how the
20 calculation was done by Pillsbury, Madison. They
21 added a \$2400 advance from the Clintons to Whitewater
22 to several -- two checks which they found from the

1 Clintons. One was a \$4990.38 check on December 29,
2 1979, which included two amounts -- they include --
3 correction -- they include a \$2400 advance from the
4 Clintons to Whitewater, they include two checks
5 totaling \$4990.38 on December 29, 1979, one for
6 \$4752.88 and one for \$237.50. The report states that
7 another check could not be found in the amount of
8 \$4599.64.

9 If you add all of the checks listed and the
10 advance, and subtract an amount listed, the check for
11 \$237.50 which appears to equal an amount listed on
12 the 1979 return just below the 7749 item, the amount
13 listed is \$235, which is very similar to the \$237.50
14 reported in the report, you come up with \$11,752.52
15 and the amount reported on the return is 11,749. So
16 the two amounts are off by \$3.52.

17 Moving on.

18 MR. COLE: Did you have a further statement
19 you wanted to make?

20 THE WITNESS: If you want me to answer any
21 of these questions about the proper deductibility of
22 these amounts, I will have to assume -- to answer

90

1 those, I will have to assume that these amounts that
2 you have added up do correspond to the deduction
3 claimed on the tax return. I say that --

4 BY MR. JIAMPIETRO:

5 Q That's fine. I'm -- exactly, I understand
6 that.

7 I would like to move on to the 1980 Clinton
8 tax return. By the way, I only have very few items
9 to go over that are left. Please refer to schedule A
10 and B from the 1980 return Bates stamped LP 00678.

11 A I have it.

12 Q Under line 19, "interest expense," on the
13 first line reads "James McDougal \$9000." Was this
14 schedule prepared under your direction?

15 A Interestingly enough, some of that is my
16 handwriting and some of it is somebody else's.
17 That's my handwriting, on the first three items on
18 interest expense -- the first -- well, the first four
19 items: GMAC, James McDougal, Yale University and
20 WB&T.

21 Q To the best of your knowledge, this
22 schedule is accurate and was prepared under your

1 direction?

2 A Right, yes.

3 Q I would like to show you a copy of a check
4 in the amount of \$9000. The document is Bates
5 stamped DKRT 800533. It is a check by Bill Clinton
6 or Hillary Rodham Clinton made on Union National Bank
7 dated August 23, 1980. The payee is blank. It is
8 for \$9000 and signed Hillary Rodham.

9 Have you ever seen this check before?

10 A I have no memory of ever seeing it before.

11 Q I would like to briefly read you the
12 statement from the Pillsbury, Madison report, page
13 number 31, Bates stamped Senate WW report 0038.

14 "On August 23, 1980, the Clintons paid
15 \$9000 to an unknown payee."

16 Footnote 137 states "the payee line on the
17 check was not completed but the endorsement on the
18 check indicated it was deposited at Citizens Bank of
19 Flippin. Through a reconstruction of the Citizens
20 Bank mortgage history, it has been determined this
21 payment was applied as principal to the outstanding
22 balance of the Citizens Bank loan. The Clintons

92

1 deducted the \$9000 payment as interest expense in
2 their 1980 federal income tax return."

3 The footnote reads "their 1980 tax return
4 reports this \$9000 was paid to Jim McDougal. The
5 Lyons report questions the appropriateness of the
6 \$9000 deduction taken by the Clintons."

7 Assuming the facts in the Pillsbury,
8 Madison report are correct, was this amount properly
9 deducted from the Clintons' 1980 income tax return?

10 A No.

11 Q I would like to move on. Staying with the
12 1980 return, I would like to refer you to pages 30
13 and 31 of the return -- pages 30 and 31 of the
14 Pillsbury report, please. I'm sorry.

15 A Okay.

16 Q I'm going to read from the text of the
17 report. "Earnest money loan: On June 23, 1980
18 Whitewater disbursed 21,346.29 to Union Bank in
19 repayment of the \$20,000 earnest money loan taken out
20 by Jim McDougal and Attorney General Clinton on June
21 19, 1978. The loan was repaid one week after its
22 scheduled June 16, 1980 due date. The company did

1 not have any money to pay the loan. Instead Jim
2 McDougal personally borrowed \$20,000 on June 19, 1980
3 from the Bank of Cherry Valley and deposited these
4 funds into a Whitewater account on June 20, 1980.
5 One effect of this transaction was to reduce the
6 Clintons' personal liability by \$20,000. Where the
7 Union Bank loan had been signed personally by both
8 Attorney General Clinton and Jim McDougal, the Cherry
9 Valley Bank loan was signed individually by Jim
10 McDougal. This is something that would occur again:
11 The replacement of recourse financing by nonrecourse
12 financing for which one or more of the shareholders
13 was not personally liable."

14 Did you ever discuss this transaction with
15 Bill or Hillary Clinton?

16 A No.

17 Q If the Clintons were liable on a -- if Bill
18 Clinton was personally liable on a \$20,000 note -- if
19 Bill Clinton personally borrowed \$20,000 --
20 correction.

21 Were you aware of these facts at the time
22 you prepared this return?

94

1 A No.

2 Q Since Whitewater Development Corporation
3 paid off a personal obligation of Bill Clinton,
4 shouldn't \$10,000 have been reported as income on the
5 1980 return?

6 MR. COLE: I object to the characterization
7 of Whitewater Development Corporation paying off a
8 personal obligation of Bill Clinton. Based solely on
9 what is written in the Pillsbury report, it indicates
10 Mr. McDougal borrowed funds from the Bank of Cherry
11 Valley and deposited that in a Whitewater account and
12 paid off the Union Bank loan. I don't think -- in my
13 view that is not the same as Whitewater Development
14 Corporation, regardless of who made out the check.

15 I think the facts speak for themselves, but
16 when you summarize them, you are characterizing them
17 in a certain way.

18 MR. JIAMPIETRO: I don't believe I have
19 summarized anything. I think I read specifically
20 from the Whitewater report.

21 MR. COLE: You did the first time.

22 MR. JIAMPIETRO: I can show you a check

1 Bates stamped DKRT 901077, Whitewater Development
2 Company Inc. check made on Union National Bank paid
3 to the order of Union National Bank in the amount of
4 \$21,346.29. It refers to note 0004197; document
5 Bates stamped DKRT 900155 is the promissory note
6 signed personally by Bill Clinton and James McDougal
7 dated December 17, 1979 in the amount of \$20,000.

8 MR. COLE: I understand. I was just
9 pointing out the fact that Mr. McDougal apparently
10 borrowed and incurred a liability of his own from the
11 Bank of Cherry Valley and then ran the funds through
12 Whitewater.

13 BY MR. JIAMPIETRO:

14 Q I'm asking the witness, assuming these
15 facts are correct, would the Clintons -- shouldn't
16 the Clintons have reported \$10,000 as income on their
17 1980 return?

18 A What I can't tell from this paragraph is
19 whether the Clintons agreed to repay Jim McDougal
20 and/or Whitewater Development Company for this
21 money. If the Clintons had an obligation to repay
22 that money, the money that was used to pay off their

1 old liability, then no, there wouldn't be any
2 income. If there was no liability by the Clintons to
3 repay that loan, then I guess it would be income.

4 MR. COLE: And you don't know which is the
5 case sitting here today?

6 THE WITNESS: I can't tell from this report
7 which is the case, whether the Clintons had obligated
8 themselves to repay this money to Jim McDougal or
9 Whitewater.

10 MR. COLE: This is another instance, I take
11 it, where it is the existence of the debt that would
12 be determinative for tax purposes, and not whether or
13 not there was a formal piece of paper or a note
14 reflecting the debt?

15 THE WITNESS: That's right.

16 BY MR. JIAMPIETRO:

17 Q If there was no obligation by the Clintons
18 to repay James McDougal for the \$10,000, then this
19 should have been reported as income on this return?

20 A I don't want to word your question for you,
21 but to repay James McDougal or Whitewater.

22 Q Or Whitewater, exactly. Let me rephrase

1 the question. If there was no obligation by the
2 Clintons to repay James McDougal or Whitewater this
3 \$10,000, then this should have been reported as
4 income on the 1980 return? Once again, just for the
5 record, you have stated that you didn't have any
6 knowledge of this transaction.

7 A No, I don't. I'm not -- on first blush, it
8 would appear to me like that would be income to the
9 Clintons. I feel real inadequate when I am given a
10 very few pieces of facts and asked to make a judgment
11 on those facts.

12 Q I understand that.

13 A There could be a lot of other pieces to
14 this transaction that I'm not --

15 Q That's fine. We are missing a lot of
16 pieces in this whole story. We are trying to piece
17 it together as best as we can for the record.

18 MR. COLE: If I'm understanding your
19 testimony correctly, Mr. Norton, if that repayment
20 was treated as a loan or an obligation on the part of
21 the Clintons and the McDougals to Whitewater, in
22 other words if Whitewater was loaning the Clintons

98

1 and McDougals money to pay off this Union Bank debt,
2 it would not be income?

3 THE WITNESS: That's right.

4 MR. COLE: So it would really be determined
5 by the understanding between the parties at the time
6 as to whether or not there would be tax liability?

7 THE WITNESS: That's exactly right.

8 BY MR. JIAMPIETRO:

9 Q I would like to clarify for the record it
10 may not have been income in this year if there was an
11 understanding that there was a debt by the Clintons
12 to Whitewater or Jim McDougal, but if that \$10,000
13 was never repaid to either Jim McDougal or Whitewater
14 Development Corporation at any future time, then that
15 would have been income to the Clintons, given the
16 facts that you have seen already?

17 A If there was a liability created by the
18 Clintons to whoever and that liability wasn't
19 enforced and the statute of limitations ran on it,
20 the Service has historically taken a position it is
21 income in the year the statute of limitations runs.

22 MR. COLE: But if that liability existed in

1 1983 when the Clintons sold their interest in
2 Whitewater to James McDougal for a thousand dollars,
3 if that liability still existed in the corporation at
4 that time there would be no tax liability, it would
5 be part of the thousand dollar sale; correct?

6 MR. JIAMPIETRO: You noted there was a
7 statute of limitations which could have run. Unless
8 you are absolutely clear on what that statute of
9 limitations was, I would be careful in answering the
10 question.

11 MR. COLE: My question doesn't have
12 anything to do with the statute of limitations.

13 MR. JIAMPIETRO: Absolutely it does. He
14 said the enforceability of the note would have, after
15 a certain period of time under IRS rules, have been
16 deemed that it wasn't going to get repaid.

17 MR. COLE: If the parties renewed the note,
18 if there is no written note and they renewed the
19 understanding.

20 MR. JIAMPIETRO: An unwritten renewal of an
21 unwritten note is an interesting way of doing
22 business.

100

1 MR. COLE: It is an understanding between
2 the parties. That is the only thing I'm getting at
3 here. This is all theoretical. I'm trying to take
4 it to its logical conclusion.

5 MR. JIAMPIETRO: I would like to move on.
6 I'm almost finished here.

7 BY MR. JIAMPIETRO:

8 Q I would like to move on to the 1982 Clinton
9 tax return. I'm going to read a statement from the
10 Pillsbury, Madison report -- this is my last
11 reference to the report, so I thank you very much for
12 following along with me -- pages 47 and 48 of the
13 Pillsbury, Madison report stamped Senate WW report
14 0054 and 0055.

15 The report states "documents exist that
16 suggest the Clintons borrowed money from Citizens
17 Bank of Jonesboro, not to be confused with Citizens
18 Bank of Flippin discussed above, but the documents do
19 not indicate whether this loan had anything to do
20 with Whitewater. There is evidence of two payments
21 to Citizens Bank of Jonesboro. One was made
22 personally by the Clintons. The other came from

1 Whitewater funds. The Clinton payment drawn on
2 Worthen Bank account on February 17, 1981 was for
3 \$243.82. The check signed by Mr. Clinton and made
4 payable to Citizens Bank contained the notation
5 interest on note number 585-270. The Whitewater
6 disbursement on February 2, 1982 was for \$5691.20.
7 It also referenced loan number 585-270."

8 Were you aware of these transactions when
9 you prepared the Clintons' 1982 tax return?

10 A No.

11 Q Once again, if Whitewater paid off a
12 personal obligation of the Clintons and if this
13 Citizens Bank of Jonesboro loan was not in fact
14 related to Whitewater, shouldn't the \$5691.20 have
15 been reported as income on the 1982 return?

16 A The piece I'm missing here is whether there
17 was any kind of obligation by the Clintons to repay
18 Whitewater.

19 Q So once again, similar to the last line of
20 reasoning, if there was no obligation of the Clintons
21 to repay Whitewater and if the Clintons never did
22 repay Whitewater this amount of money, then this

102

1 amount of money should, either on this return or at
2 some future date, have been reported as income by the
3 Clintons?

4 A It would -- in this case, there is another
5 piece that is missing, and that's you don't know what
6 the Clintons did with this money that they borrowed
7 from Citizens Bank of Jonesboro, whether that was
8 used -- it says here that the documents don't
9 indicate whether this loan had anything to do with
10 Whitewater, but it doesn't say where the loan
11 proceeds went.

12 If the loan proceeds went in some way for a
13 Whitewater obligation, and then Whitewater is simply
14 repaying an obligation they had with the Clintons, it
15 would simply be a repayment by Whitewater to the
16 Clintons. I'm missing that part of the transaction.

17 Q But once again, if the funds were not
18 transferred to Whitewater and if there was no note
19 issued -- no benefitting Whitewater from the
20 Clintons, then this should have been reported as
21 income if it were paid by Whitewater on behalf of the
22 Clintons?

1 A I understand your question and I will
2 answer it this way: If we know that -- if we don't
3 know what happened to the proceeds from the loan,
4 whether it went for a Whitewater obligation, and if
5 we don't know whether the Whitewater was simply
6 paying this loan to pay off some sort of obligation
7 it had to the Clintons, whether it had to do with
8 this loan or any other obligation, and if we don't
9 know whether Whitewater obligated themselves to pay
10 the Clintons at some time in the future, you have to
11 look at whether it is income.

12 Q I have one final question and then just a
13 quick follow-up, because there was something you
14 mentioned that I let go earlier.

15 My last question is a substantive question
16 on the Clintons' tax returns. The Clintons and
17 McDougals transferred 220 acres of land to Whitewater
18 Development Corporation in 1979. It has been
19 suggested that notes were issued by Whitewater
20 Development Corporation to the Clintons and McDougals
21 upon transfer.

22 My question to you is were you ever

1 informed of such notes being issued by Whitewater
2 Development Corporation to the Clintons?

3 A No.

4 Q If in fact such notes were issued to the
5 Clinton's, as principal and interest on those notes
6 were paid down by Whitewater Development Corporation,
7 shouldn't interest income have been reported on the
8 Clinton's' personal tax returns?

9 A Yes.

10 Q My final follow-up is that you mentioned
11 earlier that you had had a telephone conversation
12 with Yoly Redden.

13 A Right.

14 Q Could you please describe the circumstances
15 of that telephone conversation.

16 A She called me to tell me that David Kendall
17 would be calling me.

18 Q That was the extent of the conversation?

19 A That was the extent of the conversation, to
20 tell me that he would have questions about something
21 dealing with their tax return.

22 Q Was that the only contact you had with Yoly

1 Redden?

2 A Yes.

3 MR. JIAMPINETRO: Thank you. I'm finished.

4 MR. COLE: Off the record.

5 (Recess.)

6 EXAMINATION

7 BY MR. COLE:

8 Q Mr. Norton, I would like to go back and ask
9 a few additional questions about the meeting that you
10 testified to with Mr. Clinton and Mr. McDougal and
11 another individual. Do you remember when that
12 meeting took place?

13 A No.

14 Q Was Mr. Clinton governor when the meeting
15 took place?

16 A I can't put it in a time frame. I just
17 don't remember.

18 Q Do you recall whether it was at a time when
19 you were engaged to prepare the Clintons' tax
20 returns?

21 A Fairly -- I would have to say yes. The
22 first time I ever met the Clintons it was to be

106

1 engaged.

2 Q You think this occurred sometime after
3 then?

4 A It would have been after then, yes.

5 Q Who asked you to attend the meeting?

6 A Bill Clinton.

7 Q What did he say, as best you can recall,
8 when he asked you to attend? What was your purpose
9 in being there?

10 A My purpose was to -- I don't know that I
11 can answer that. I just remembered him calling me on
12 the phone and asking me if I was available for a
13 meeting at a certain time, and I said I was.

14 Q And were you attending that meeting in your
15 capacity as his tax preparer?

16 A That's the only relationship I had with
17 him, so yes; I would have to say yes.

18 Q You didn't have any relationship with any
19 of the other parties at the meeting with Mr. Clinton?

20 A No.

21 Q Did you understand that Mr. Clinton wanted
22 you there so that you could hear what was being

1 discussed and advise him about how it might affect
2 the preparation of his tax returns?

3 A That's my understanding.

4 Q Did Mr. Clinton say anything at the meeting
5 to indicate that he was proposing any course of
6 action himself personally with regard to the
7 Whitewater property?

8 A No.

9 Q If I understand you correctly, Mr. McDougal
10 presented some information and proposed a method of
11 proceeding and Governor Clinton listened while
12 Mr. McDougal spoke?

13 MR. JIAMPIETRO: I would like to
14 interrupt. You haven't testified before that Jim
15 McDougal gave any description of a method for
16 proceeding. So I just want to make sure that you
17 answer each point that he states here one at a time.

18 THE WITNESS: I thought I had answered
19 that.

20 MR. KUMPE: He did say that Jim McDougal
21 proposed a method of proceeding.

22 BY MR. COLE:

1 Q As I understood you, you said Mr. McDougal
2 proposed using subchapter S or S corporation during
3 the meeting.

4 A Mr. McDougal described the transaction.
5 Whether he specifically said a subchapter S would be
6 used or the other accountant who attended said that I
7 can't answer, but one of those two mentioned that.

8 Q The distinction I'm getting to in my
9 question is this was something Mr. McDougal and
10 perhaps the other accountant was proposing, not
11 something Mr. Clinton was proposing.

12 A It was not something Mr. Clinton or myself
13 were proposing. It was something Mr. McDougal and
14 his accountant were proposing.

15 Q You and Mr. Clinton were listening while
16 Mr. McDougal and his accountant made a proposal?

17 A That's exactly right.

18 Q Did you understand Mr. Clinton would be
19 looking to you for advice as to what was being
20 proposed by Mr. McDougal and the other accountant?

21 A That's my understanding.

22 Q Did Mr. Clinton say anything that would

1 indicate that he had consulted with Mr. McDougal or
2 played a part in developing the proposal that
3 Mr. McDougal was putting forth?

4 A He gave me no indication of that.

5 MR. JIAMPIETRO: You stated previously that
6 Bill Clinton didn't say anything at the meeting; is
7 that correct? Or did he tell you specifically that
8 he had never had any contacts with James McDougal
9 previously?

10 THE WITNESS: When I say he didn't say
11 anything at the meeting, obviously he talked at the
12 meeting, but he didn't say anything specifically
13 about the transaction at the meeting.

14 MR. JIAMPIETRO: Did he say anything
15 specifically about not having discussed these
16 transactions with Jim McDougal previously?

17 THE WITNESS: He said nothing to me about
18 that.

19 BY MR. COLE:

20 Q Was the focus of the meeting tax planning
21 for the Whitewater investment, or was the purpose of
22 the meeting broader than that?

1 A It was broader than that.

2 Q What else was discussed other than the tax
3 issues relating to the Whitewater investment?

4 A Actually, Jim McDougal described in general
5 what the investment was all about, that it was an
6 investment in a piece of land they were going to
7 develop, and then walked through the big picture of
8 how it was going to be structured, including the tax
9 implications.

10 Q Did you have a sense as to whether
11 Mr. Clinton was hearing that for the first time as he
12 sat there with you, or did it appear to be something
13 he was already familiar with?

14 A I have no judgment on that one way or the
15 other.

16 Q And did Mr. McDougal indicate that -- just
17 a moment. Let me rephrase the question.

18 I believe you testified that you had a
19 reaction to what Mr. McDougal was proposing in terms
20 of using subchapter S filing?

21 A I did have a reaction.

22 Q And did you state that reaction at the

1 meeting?

2 A I did.

3 Q And what was the response of Mr. McDougal
4 and the other accountant when you stated your
5 reaction?

6 A My reaction specifically was that you can't
7 use guaranteed debt to support basis in an S
8 corporation. They disagreed with me.

9 Q Was the matter resolved at that meeting?

10 A No.

11 Q Did Mr. Clinton express a view one way or
12 another in those discussions?

13 A Yes.

14 Q What was his view?

15 A He pulled me off to the side out of the
16 meeting and said Jim McDougal is my partner and I
17 have to trust him on matters dealing with this
18 investment, and we have to -- I want to rely on him
19 to structure it properly and leave it alone. He told
20 me to back off, leave it alone.

21 Q He indicated he was going to rely on
22 Mr. McDougal and take Mr. McDougal's advice on how to

112

1 structure the transaction?

2 A Yes, he did.

3 Q Did you have any further discussions with
4 Governor Clinton at any subsequent time about that
5 matter?

6 A No.

7 Q So that was the only discussion you had?

8 A Yes, it was.

9 Q Is that the only discussion that you can
10 recall that you ever had with either of the Clintons
11 concerning the tax treatment of Whitewater -- I want
12 to be as clear as I can here. I'm not talking about
13 in a given year whether or not a specific deduction
14 related to Whitewater, but in terms of the tax
15 treatment of the investment in general.

16 MR. JIAMPINETRO: Tax strategy?

17 BY MR. COLE:

18 Q I think that may be a bit pejorative. I
19 prefer to use the term "tax treatment of the
20 transaction," if that is a distinction that makes
21 sense to you.

22 A Yes, it does.

1 Q Is that the only discussion you had with
2 either of the Clintons?

3 A Yes.

4 MR. COLE: I don't have anything further.

5 EXAMINATION

6 BY MR. JIAMPIETRO:

7 Q A couple questions that were raised in my
8 mind as you recalled your meeting with -- the meeting
9 that you described previously. You stated, I
10 believe, that Jim McDougal described in general terms
11 what the deal was about. Did he state how the
12 parties planned to make money on the transaction?

13 A Yes.

14 Q Could you please describe that.

15 A Develop the land and sell parcels of land
16 off, parcels or lots.

17 Q Was there any discussion of whether or not
18 they would hold the land until all sales were
19 completed and all moneys gained, received, or -- what
20 was the time frame over which they planned to make
21 the investment? Was that discussed?

22 A No.

1 Q Was there any discussion of who owned the
2 land?

3 A No.

4 Q Any discussion of responsibilities of the
5 various parties?

6 A Yes.

7 Q Could you please describe that.

8 A I think I did in answer to his question.
9 The only discussion about responsibilities was when
10 Bill Clinton pulled me out of the room and stated
11 that Jim McDougal was his partner and that it was Jim
12 McDougal's deal and that he would leave it up to Jim
13 McDougal to structure.

14 EXAMINATION

15 BY MR. COLE:

16 Q I'm going to ask you a basic question in
17 layman's terms. If using non-tax professional terms
18 creates a problem for you, let me know.

19 Based on the discussion that took place
20 with Mr. McDougal and the other accountant that you
21 just testified to, was it your understanding that
22 Whitewater was a tax shelter or, rather, was

1 Whitewater an investment on which the principals
2 expected to make money, in layman's terms?

3 A An investment where they expected to make
4 money.

5 Q Based on the description that Mr. McDougal
6 gave at that meeting, the purpose of the Whitewater
7 investment or the Whitewater deal was not as what
8 laymen would refer to as a tax shelter or tax dodge?

9 A That's true.

10 Q Your understanding was that the parties
11 expected, based on what Mr. McDougal said, to
12 eventually make money on the investment?

13 A That's right.

14 EXAMINATION

15 BY MR. JIAMPIETRO:

16 Q Once again, for the purposes of clarity on
17 the record, was there any discussion of use of the
18 Whitewater investment to offset any income realized
19 for other purposes by any of the parties?

20 A Yes, there was.

21 MR. JIAMPIETRO: Okay.

22 EXAMINATION

1 BY MR. COLE:

2 Q I won't say final question because we don't
3 know what will be the final question, but I do have
4 another question.

5 Is it unusual in a real estate investment
6 like the Whitewater investment as described to you by
7 Mr. McDougal to structure the corporation that holds
8 the land as a subchapter S corporation?

9 A It is not unusual.

10 Q So the issue that arose at the meeting was
11 a technical issue having to do with the tax basis of
12 the property and the fact that it was entirely
13 financed through bank loans; is that correct?

14 A Tax basis of the stockholders in the
15 corporation.

16 Q The stockholders in the corporation?

17 A That was the point, that was the technical
18 issue.

19 Q And I know you explained this once, but for
20 my edification, if you could explain it again, why
21 that issue arose in this context, in the context of
22 this particular transaction.

1 A It arose because I asked the question if
2 there were going to be any start-up losses in the
3 corporation that the S corporation stockholders
4 intended to use on their personal return.

5 When they said yes, there were some front
6 end start-up losses that would be deducted, I asked
7 about that, the tax basis of the shareholders in the
8 corporation, what they were going to use as a tax
9 basis.

10 Q What did you understand were the start-up
11 losses to be expected?

12 A The interest, the interest used to carry
13 the raw land by the corporation and interest on the
14 development costs.

15 Q Would the start-up costs or losses that you
16 were discussing include additional investment in the
17 enterprise, like building roads, land surveying,
18 those kind of improvements to the property?

19 A A lot of those would be part of the
20 capitalized cost to the land. They would be deducted
21 as the property sold. There's some that would be
22 ordinary deductions too.

1 Q And the interest on the bank debt would be
2 among those?

3 A In those years, yes. It would be -- I
4 didn't let you finish your question.

5 Q I think I didn't let you finish, so you can
6 go first.

7 A The interest on the land would be deducted
8 as interest expense back in those tax years.

9 Q In this case, the interest on the land
10 would be the interest on the personal notes that the
11 Clintons and the McDougals had signed to purchase the
12 property; is that correct?

13 A I don't know how to answer that. I don't
14 know how to answer that question. What I was
15 referring to was, if the investment was owned by the
16 corporation that elected S corporation status, the
17 corporation would incur expenses and that would be
18 part of the income loss, or allocated to the
19 individual shareholders. If there was a net loss
20 allocated to the shareholders, that's when you get
21 the basis issue.

22 Even though there is a loss allocated to

1 the shareholder, that is not a deduction to the
2 shareholder unless he has a tax deduction on his
3 personal return for that year, unless he has
4 sufficient tax basis.

5 Q I guess where I'm not following you is
6 that, in this case, the land was purchased with loans
7 from two banks, one in Flippin, Arkansas and one in
8 Little Rock, Arkansas. I think you have seen
9 documentation today relating to that. Those loans
10 were taken out by the individuals personally, not by
11 the corporation.

12 There would have been interest due on those
13 loans. And I'm trying to understand whether that is
14 part of the start-up cost that you described earlier,
15 the interest on those personal loans.

16 A I was unaware of that part of the
17 transaction. I don't remember any discussion at that
18 meeting that the individuals personally owned the
19 land and were incurring interest on it. If they were
20 incurring interest on it personally and paid that
21 interest personally, then it would be a deduction
22 personally.

1 Q I'm sure Mr. Jiampietro will correct me if
2 I'm wrong. What I read the documents to indicate
3 happened here is that the individuals bought the land
4 using money that they borrowed personally from two
5 bank loans, and then at a subsequent later time, they
6 placed the land or contributed the land to the
7 corporation. But the debt on the initial purchase
8 stayed in the name of the individuals and they
9 remained personally liable; the corporation did not
10 assume that debt.

11 So, if I can finish my question, would that
12 affect your analysis --

13 MR. JIAMPJETRO: I would like to correct
14 one of the premises of the question, and the
15 assumption that the debt remained with the
16 individuals when the land was transferred, that is a
17 point that has raised a lot of questions in the minds
18 of the Majority counsel to the Special Committee. It
19 is something we are looking at in an ongoing way, the
20 question of whether or not the mortgage was assumed
21 by the corporation, and whether or not notes were
22 issued back to the individuals. I think that is

1 still a point that is being debated.

2 BY MR. COLE:

3 Q Leaving aside for the moment what the
4 reality was, if I could just ask the question, a
5 theoretical matter, assuming that the debt stayed
6 with the individuals, to use lay terms again, would
7 that affect your analysis as to whether there would
8 have been tax liability?

9 A Tax liability or --

10 Q I'm sorry. I misspoke. As to the
11 appropriateness of the tax treatment that
12 Mr. McDougal was proposing.

13 A We are getting so far reaching on these
14 assumptions that I have trouble answering the
15 question.

16 Q I agree. Actually, I don't want to assume
17 at all.

18 MR. JIAMPIETRO: One question -- I think
19 the record shows that there is evidence on the record
20 that the sub S election was never formally taken by
21 the corporation or may have been revoked by the IRS
22 because of passive income problems or problems with

1 passive income.

2 The one question I would have, before you
3 get any further on this discussion, these concerns
4 you had regarding interest as part of the start-up
5 costs, did you express these specific concerns in the
6 meeting, or was it a more general concern and you
7 personally were thinking about this and this wasn't
8 discussed at the meeting?

9 A That's really a fair characterization of
10 the meeting. I didn't ask about, well, what expenses
11 would be incurred. My question was simply are you
12 expecting to have start-up costs in the S corporation
13 that the shareholders are hoping to take on their
14 personal return. I wasn't asking what accounting
15 issues were in the corporation or what would comprise
16 the start-up costs.

17 Q Have you ever reviewed any of the notes
18 that were issued to the Clintons and McDougals
19 personally to purchase the land?

20 A No.

21 Q You don't have any knowledge of those
22 notes?

1 I think to ask him questions about
2 something he has never reviewed or didn't have any
3 involvement in is running pretty far afield.

4 MR. COLE: I know you have little interest
5 in what actually happened here. The reality is these
6 were personal notes. If you want to take the time,
7 we can show him each note and each note extension.

8 If that's what you are insisting on, we
9 will do that.

10 MR. JIAMPIETRO: I thought I should make it
11 clear for the record, the witness never reviewed
12 those, didn't participate in those notes. You are
13 asking him questions concerning those, and I'm
14 wondering about --

15 MR. COLE: I'm asking questions about the
16 facts as they exist on the record and the fact is
17 these are notes that were made out to the Clintons
18 and McDougals personally. There are no notes made
19 out to Whitewater Development Corporation.

20 MR. JIAMPIETRO: There are notes payable
21 that were issued by Whitewater Development
22 Corporation to the Clintons and McDougals

1 personally.

2 MR. COLE: I believe there is an accounting
3 interest that references that, but I haven't seen any
4 notes.

5 MR. JIAMPIETRO: There is evidence of notes
6 payable being issued. A lot of the accounting
7 treatment in the Whitewater ledgers relates to
8 those.

9 MR. COLE: My question's much more basic
10 than that. He was discussing start-up costs and I
11 was trying to understand what those were.

12 MR. JIAMPIETRO: I have no problem with
13 that line of question. When we try to get him into
14 speculating whether or not the notes were transferred
15 into the corporation, we are going afield of his
16 expertise.

17 MR. COLE: This is what actually occurred.
18 I will show him a document that is numbered DKRT
19 900025 which is a little difficult to read, but it is
20 an August 2, 1978 mortgage note to James and Susan
21 McDougal, and Bill and Hillary Clinton. It is a
22 personal loan to them.

1 And I will show you document number -- this
2 document is not numbered, but it is a December 17,
3 1979 promissory note for \$20,000 signed by Bill
4 Clinton and James B. McDougal personally, Union
5 National Bank.

6 BY MR. COLE:

7 Q The reason I'm showing you those documents,
8 Mr. Norton, is that it is my understanding that these
9 two loans -- and this may actually be an extension,
10 that is the Union Bank extension -- the loans from
11 Citizens Bank in Flippin Arkansas and Union Bank in
12 Little Rock, Arkansas to the Clintons and McDougals
13 personally were the loans that were used to purchase
14 the Whitewater property.

15 I am still -- I continue to be confused as
16 to what the start-up costs were going to be if those
17 start-up costs aren't the interest on the notes to
18 purchase the property.

19 A I didn't discuss what made up the start-up
20 costs with them. I really can't answer whether it is
21 this interest or not.

22 Q You just asked whether there would be

1 start-up costs incurred?

2 A Start-up losses incurred.

3 Q And Mr. McDougal indicated that there would
4 be. Okay. Thank you.

5 MR. JIAMPIETRO: I think we will get
6 Mr. Norton and Mr. Kumpe out so they can get on their
7 plane and get back to Little Rock.

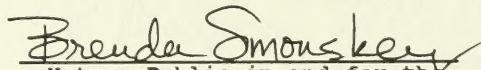
8 (Whereupon, at 4:08 p.m., the deposition
9 was concluded.)

10 -----
11
12 GAINES B. NORTON, JR.
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CERTIFICATE OF NOTARY PUBLIC & REPORTER

127

I, BRENDA M. SMONSKEY, the officer before whom the foregoing deposition was taken, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn; that the testimony of said witness was taken in shorthand and thereafter reduced to typewriting by me or under my direction; that said deposition is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken; and, further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.


Notary Public in and for the
District of Columbia

My Commission Expires SEPTEMBER 14, 1996



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WILLIAMS & ANDERSON

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May 13, 1996

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Joe Jampietro, Esq.
Senate Committee on Banking
Housing, and Urban Affairs
534 Dirksen Building
Washington, DC 20510

RE: Gaines Norton

Dear Joe:

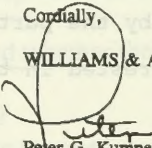
My client, Gaines Norton, has reviewed the transcript. He has noted some errors:

Page 11, line 5 - "S.U." should be "H.G."
Page 72, line 7 - "a" should be "they"
Page 82, line 7 - "service" should be "return".

Mr. Norton has only had the opportunity to review the transcript once. This errata listing may not be comprehensive. If there are other errors noted, I will advise.

Cordially,

WILLIAMS & ANDERSON


Peter G. Kumpe

PGK/llj

ISBN 0-16-055567-1



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